IMPORTANT NOTICE

FOR DISTRIBUTION ONLY TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**")) AND ARE LOCATED OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this notice (the "**Offering Circular**") and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

The Offering Circular has been prepared in connection with the proposed offer and sale of the Notes described herein. The Offering Circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S) AND MAY ONLY BE OFFERED AND SOLD TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S) IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES.

Confirmation of your representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the Notes (1) each prospective subscriber or purchaser of the Notes must be a person other than a U.S. person who is outside the United States subscribing or purchasing in an offshore transaction pursuant to Regulation S; and (2) each prospective subscriber or purchaser of the Notes being offered in the United Kingdom must be a Relevant Person (as defined below). By accepting this e mail and accessing, reading or making any other use of the Offering Circular, you shall be deemed to have represented to the Issuer, the Bank and the Joint Lead Managers (each as defined in the Offering Circular) that: (a) you have understood and agree to the terms set out herein; (b) you are (or the person you represent is) a person other than a U.S. person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction, including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands; (c) in respect of the Notes being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person; (d) you consent to delivery of the Offering Circular by electronic transmission; (e) you will not transmit the Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers, the Bank and the Issuer; and (f) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Notes.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of a Joint Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or such affiliate on behalf of the Joint Lead Managers in that jurisdiction.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Offering Circular has not been approved by an authorised person in the United Kingdom and is for distribution only to persons who: (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**"); (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; (iii) are outside the United Kingdom; or (iv) are persons to whom an invitation or inducement to engage in investment activity within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**Relevant Persons**"). The Offering Circular is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Offering Circular relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the FSMA does not apply to us.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Issuer, the Bank, the Joint Lead Managers, or any person who controls any of the Joint Lead Managers, or any of their directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

UAH 4,051,000,000.00 16.5 per cent. Loan Participation Notes due 2021
issued on 2 March 2018

issued by
BIZ FINANCE PLC
(incorporated in England and Wales)
on a limited recourse basis
for the purpose of funding a loan to
Joint Stock Company "The State Export-Import Bank of Ukraine"
(incorporated in Ukraine)

The issue price of the UAH 4,051,000,000.00 16.5 per cent. Loan Participation Notes due 2021 (the "**Notes**") of Biz Finance Plc (the "**Issuer**") is 100.00 per cent. of their principal amount.

The Notes will constitute the obligation of the Issuer to apply an amount equivalent to the principal amount of the Notes for the purpose of financing a loan denominated in hryvnia in the amount of UAH 4,051,000,000.00 (the "**Loan**") to Joint Stock Company "The State Export-Import Bank of Ukraine" (the "**Bank**") pursuant to a loan agreement to be dated 28 February 2018 (the "**Loan Agreement**") between the Issuer (as lender) and the Bank (as borrower).

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 2 March 2021. See Condition 5 (*Redemption and Purchase*) of the Notes.

The Notes will bear interest from 2 March 2018 at the rate of 16.5 per cent. per annum payable semi-annually in arrear on 2 March and 2 September each year commencing on 2 September 2018. Except in the limited circumstances set out in clause 17 (*Payments*) of the Loan Agreement payments under the Notes will be made in U.S. Dollars, which amounts shall be equal to the relevant hryvnia amount payable in respect of the Notes and received by the Issuer under the Loan Agreement, converted into U.S. Dollars at the relevant Exchange Rate. See Condition 7 (*Settlement*) of the Notes.

The Notes are limited recourse obligations of the Issuer. In each case where amounts are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to holders of the Notes (the "Noteholders"), on each date upon which such amounts are due in respect of the Notes, for all amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement as provided for in the *terms and conditions of the Notes* (the "Conditions") and less amounts in respect of the Reserved Rights (as defined in the Conditions). Any shortfall will remain due but will be deferred and (unless sufficient additional amounts are received on the Loan) no longer due and payable. The Issuer will have no other financial obligation under the Notes. Accordingly, Noteholders are deemed to have accepted that they will be relying on the covenants, the credit and financial standing of the Bank in respect of payments under the Notes and the performance by the Bank of its obligations under the Loan Agreement.

Noteholders will bear any exchange rate risk or other risks in connection with the settlement of payments due to the Noteholders in U.S. Dollars or, in the limited circumstances described herein, in connection with the settlement of payments due to the Issuer under the loan in hryvnia. The Issuer shall have no responsibility, obligation or liability whatsoever towards Noteholders in relation to such risks or any loss suffered by Noteholders as a result thereof.

Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List and trading on its Global Exchange Market, which is the exchange regulated market of the Irish Stock Exchange. The Irish Stock Exchange's Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). This Offering Circular constitutes the listing particulars in respect of the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange and has been approved by the Irish Stock Exchange.

The Notes and the Loan have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") to a bearer. The Notes are being offered outside the United States by the Joint Lead Managers in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes may be sold in the United Kingdom, the Russian Federation, the Republic of Italy, Singapore and Hong Kong only in compliance with applicable laws. The Notes have not been registered in Ukraine and may not be offered or sold within Ukraine. See "*Selling Restrictions*".

The Notes will be in registered form in the denomination of UAH 4,051,000,000.00. The Notes may be held and transferred, and will be offered and sold, in the principal amount of UAH 6,000,000 and integral multiples of UAH 50,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "**Global Note**") registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Individual definitive registered note certificates ("**Definitive Note Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions relating to the Notes in Global Form*".

For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "*Risk Factors*".

Joint Lead Managers

Citigroup **J.P. Morgan**

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IMPORTANT NOTICE

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE A PROSPECTUS FOR THE PURPOSE OF ARTICLE 5 OF DIRECTIVE 2003/71/EC, AS AMENDED (THE "PROSPECTUS DIRECTIVE") AND FOR THE PURPOSE OF GIVING INFORMATION WITH REGARD TO THE ISSUER, THE BANK AND THE NOTES WHICH, ACCORDING TO THE PARTICULAR NATURE OF THE ISSUER, THE BANK AND THE NOTES, IS NECESSARY TO ENABLE INVESTORS TO MAKE AN INFORMED ASSESSMENT OF THE ASSETS AND LIABILITIES, FINANCIAL POSITION, PROFIT AND LOSSES AND PROSPECTS OF THE ISSUER AND THE BANK AND OF THE RIGHTS ATTACHING TO THE NOTES.

Neither the Joint Lead Managers (as defined under "*Subscription*") nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained or incorporated by reference in this Offering Circular in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained or incorporated by reference in this Offering Circular is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Lead Managers or any of their directors, affiliates, advisers or agents in any respect. The contents of this Offering Circular are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Offering Circular in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Bank, the Trustee or the Joint Lead Managers or any of their directors, affiliates, advisers or agents. The delivery of this Offering Circular does not imply that there has been no change in the business and affairs of the Issuer or the Bank since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Offering Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Offering Circular does not constitute an offer of securities to the public in the United Kingdom. No Offering Circular has been or will be approved in the United Kingdom in respect of the Notes. Consequently this document is being distributed to, and is directed solely at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "**Order**"), (iii) high net worth entities, and other persons to whom it may lawfully be distributed, falling within Article 49(2)(a) to (d) of the Order and (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities of the Bank or any member of its group may otherwise lawfully be distributed or caused to be distributed (all such persons in (i)-(iv) above being "**relevant persons**"). Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents. Persons into whose possession this Offering Circular may come are required by the Issuer, the Bank and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Offering Circular and other offering material relating to the Notes is set out under "*Selling Restrictions*" and "*Summary of Provisions Relating to the Notes in Global Form*".

The approval of the issue of the Notes by the Board (as defined in "*General Information*") will take place prior to the Closing Date (as set out in "*Overview of the Offering*")

NEITHER THE NOTES NOR THE LOAN HAVE BEEN OR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT

SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND THE DISTRIBUTION OF THIS DOCUMENT, SEE "*SELLING RESTRICTIONS*". PROSPECTIVE INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THE NOTES AND THE LOAN HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

IMPORTANT - EEA RETAIL INVESTORS *– The Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (the "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Directive 2003/71/EC (as amended the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.*

MIFID II product governance / Professional investors and ECPs only target market *– Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes, taking into account the five categories referred to in item 18 of the Guidelines published by ESMA on 2 June 2017 has led to the conclusion in relation to the type of clients criteria only that: (i) the type of clients to whom the Notes are targeted is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' type of clients assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' type of clients assessment) and determining appropriate distribution channels.*

STABILISATION

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or persons acting on its behalf) may over-allot notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

SELLING RESTRICTIONS

United States of America

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Each of the Joint Lead Managers has agreed to only offer and sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, each of the Joint Lead Managers has further agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each of the Joint Lead Managers has undertaken that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or other person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and undertaken that:

- *Financial Promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- *General Compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Republic of Italy

Each of the Joint Lead Managers has represented, warranted and undertaken that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular to the public in the Republic of Italy ("**Italy**") other than:

(a) to qualified investors (*investitori qualificati)* as defined pursuant to Article 100 of Legislative Decree No. 58, 24 February 1998 (the "**Financial Services Act**") and Article 34-ter, paragraph 1 (b), of CONSOB Regulation 11971, 14 May 1999 (the "**Regulation No. 11971**"), all as amended and restated from time to time; or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter, first paragraph of Regulation No. 11971.

Moreover, and subject to the foregoing, each Joint Lead Manager acknowledges that any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB regulation No. 16190, 29 October 2007, all as amended; and

(ii) in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB and/or the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian competent authority.

Russian Federation

Each of the Joint Lead Managers has represented, warranted and undertaken that it has not offered (including by way of marketing/advertising) or sold or transferred or otherwise disposed of, and will not offer (including by way of marketing/advertising) or sell or transfer or otherwise dispose of (as part of their initial distribution or at any time thereafter), the Notes to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under the law of the Russian Federation.

Singapore

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented, warranted and agreed, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section

275, of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the Securities and Futures Act; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Ukraine

Each of the Joint Lead Managers has represented, warranted and undertaken that the Notes shall not be offered by it for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Offering Circular or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

Prohibition of Sales to EEA Retail Investors

Each of the Joint Lead Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; and

(b) a customer within the meaning of the IMD, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(c) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

General

Each of the Joint Lead Managers has acknowledged that, other than the application made to the Irish Stock Exchange for the Notes to be admitted to be listed and traded on the Global Exchange Market of the Irish Stock Exchange, no action has been or will be taken in any jurisdiction by the Issuer, the Bank or any Joint Lead Manager that would or is intended to permit a public offering of the Notes, or possession or distribution of the Offering Circular or any offering material in relation thereto, in any country or jurisdiction where legal action for that purpose is required.

Accordingly, each of the Joint Lead Managers has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable securities laws and regulations and all offers and sales of Notes by it will be made on the same terms.

FORWARD-LOOKING STATEMENTS

Some statements in this Offering Circular may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Bank's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. The Bank uses the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in "*Overview of the Bank*", "*Risk Factors*", "*Financial Review*", "*The Bank*", "*Risk Management*" and other sections of this Offering Circular. The Bank has based these forward-looking statements on the current views of its management with respect to future events and financial performance. These views reflect the best judgment of the Bank's management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in the Bank's forward-looking statements and from past results, performance or achievements. Although the Bank believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the Bank has identified in this Offering Circular, or if any of the Bank's underlying assumptions prove to be incomplete or incorrect, the Bank's actual results of operations may vary from those expected, estimated or projected.

These forward-looking statements speak only as of the date of this Offering Circular and are not subject to any continuing obligations under the listing rules of the Stock Exchange. Except to the extent required by law, the Bank is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Offering Circular whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Bank, or persons acting on the Bank's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Circular. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ENFORCEABILITY OF JUDGMENTS

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is provided for in an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. There is no such treaty or arrangement in effect between Ukraine and the United Kingdom.

In the absence of such treaty, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Under Article 462 of the Civil Procedure Code, unless proven otherwise the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. The Civil Procedure Code does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or established court practice of these provisions of the Civil Procedure Code. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of the United Kingdom on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the Civil Procedure Code.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") with a reservation to the effect that, in respect of the awards made in a state which is not a party to the New York Convention, Ukraine will only apply the New York Convention on a reciprocal basis. Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention). The Loan Agreement contains a provision allowing for arbitration of disputes with London, England, designated as the seat of arbitration. Since the United Kingdom is a party to the New York Convention, arbitral awards in relation to those disputes may be enforced in Ukraine under the provisions of the New York Convention.

RESPONSIBILITY STATEMENT

The Issuer and the Bank, having taken all reasonable care to ensure that such is the case, accept responsibility for the information contained in this Offering Circular. To the best knowledge of the Issuer and the Bank (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and contains no omission likely to affect its imports. The statistical information and other data contained in "*Ukraine: The Banking Sector*" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the National Bank of Ukraine (the "**NBU**"), and from other Ukrainian government (the "**Government**") or mass media sources) and the Bank accepts responsibility for accurately extracting and reproducing such data but accepts no further responsibility in respect of such information.

No person is authorised to provide any information or to make any representation not contained in this document. Any such representation or information should not be relied upon as having been authorised by the Bank, the Issuer, the Trustee or the Joint Lead Managers.

Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Bank since the date of this Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

Financial Information

The financial information of the Bank set forth herein, has, unless otherwise indicated, been derived from its unaudited interim condensed consolidated statement of financial position and statements of income, comprehensive income, cash flows and changes in equity as at and for the six months ended 30 June 2017 (the "**Interim Six Month Financial Statements**"), its unaudited interim condensed consolidated statement of financial position and statements of income, comprehensive income, cash flows and changes in equity as at and for the nine months ended 30 September 2017 (the "**Interim Nine Month Financial Statements**" and together with the Interim Six Month Financial Statements, the "**Interim Financial Statements**") and from its audited consolidated statement of financial position and statements of income, comprehensive income, cash flows and changes in equity for the years ended 31 December 2015 and 2016 (the "**Audited Financial Statements**" and, together with the Interim Financial Statements, the "**Financial Statements**"). The Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("**IAS 34**").

The Interim Six Month Financial Statements have been reviewed by the Bank's independent auditors, Ernst & Young Audit Services LLC ("**EY**") located at 19A Khreshchatyk Street, Kyiv, 01001, Ukraine in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". The Interim Six Month Financial Statements, together with the auditors' review report of EY, are set forth elsewhere in this Offering Circular.

The Interim Nine Month Financial Statements have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Offering Circular. The Interim Nine Month Financial Statements should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year.

In keeping with the current practice of publishing information relating to the banking sector, the NBU has published financial information for the Bank for the year ended 31 December 2017 on its website ("**Preliminary 2017 Year End Financial Information**"). The Preliminary 2017 Year End Financial Information shall not be deemed to be incorporated in, or form part of, this Offering Circular.

Neither the Interim Nine Month Financial Statements nor the Preliminary 2017 Year End Financial Information have been reviewed by EY or any other independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. The Preliminary 2017 Year End Financial Information has not been subject to the completion of the normal year end closing process and final adjustments may arise before the financial results for the year are finalised. Potential investors should exercise caution if using such data to evaluate the Bank's financial condition and results of operations.

The audited financial statements for the year ended 31 December 2016 have been audited by EY in accordance with International Standards on Auditing and are set forth, together with the auditors' report of EY, elsewhere in the Offering Circular.

The audited financial statements for the year ended 31 December 2015 have been audited by the Bank's independent auditors, LLC Audit Firm "PricewaterhouseCoopers (Audit)" ("**PwC**") located at 75 Zhylyanska Street, Kyiv 01032, Ukraine in accordance with International Standards on Auditing and are set forth, together with the auditors' report of PwC, elsewhere in the Offering Circular. LLC Audit Firm "PricewaterhouseCoopers (Audit)" is registered in the register of audit firms of the Audit Chamber of Ukraine.

The Issuer's director's report and financial statements for the years ended 31 December 2016 and 31 December 2015 have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Offering Circular.

Alternative Performance Measures

This Offering Circular includes certain data which the Bank considers to constitute alternative performance measures ("**APMs**") for the purposes of the European Securities Markets Authority Guidelines on Alternative Performance Measures. See the financial ratios set out in "*Summary Financial Information and Financial Ratios*" and "*Financial Review - Summary Financial Information and Financial Ratios*". These APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of the Bank's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Bank's liquidity.

The Bank believes that these measures provide useful information to investors for the purposes of evaluating the financial condition and results of operations of the Bank, the quality of its assets and the fundamentals of its business. In particular, (i) the financial ratios presented by the Bank are aimed at quantifying certain aspects of the Bank's business and its strengths; and (ii) the APMs, although not required by law in the preparation of financial statements, allow for comparisons with other banks, over different periods of time and between the Bank and the average industry standards.

Currency

In this Offering Circular, all references to "hryvnia" and "UAH" are to the currency of Ukraine, all references to "dollars", "U.S. Dollars", "USD", "U.S.$" and "US$" are to the currency of the United States of America and all references to "euro", "EUR" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro as amended.

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at exchange rates established by the NBU and effective as at the dates of the respective financial information presented elsewhere in this Offering Circular in respect of both statements of financial position and income statement items. No representation is made that the hryvnia or U.S. Dollar amounts referred to herein could have been converted into U.S. Dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU's hryvnia/dollar exchange rate as reported on 31 December 2017 was UAH 28.067 to the U.S. Dollar, on 30 June 2017 it was UAH 26.099 on 31 December 2016 it was UAH 27.190 to the U.S. Dollar and on 31 December 2015, UAH 24.001 to the U.S. Dollar. These are rates used for the respective conversions in "*Summary Financial Information and Financial Ratios*". The NBU's hryvnia/dollar exchange rate as reported on 27 February 2018 was UAH 27.007 to the U.S. Dollar. See "*Exchange Rates*" below.

Rounding

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

OVERVIEW OF THE BANK

This overview may not contain all of the information that may be important to prospective purchasers of the Notes and should be read together with the more detailed information regarding the Bank's business and the Financial Statements included elsewhere in this Offering Circular. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Offering Circular are forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

The Bank is state-owned and headquartered in Kyiv, Ukraine. The Bank was founded by Presidential Decree in January 1992. It was registered by the NBU under registration number 5 on 23 January 1992 and received legal entity ID code 00032112 on the same date. The Bank operates under Ukrainian law. NBU statistics indicate that, as at 30 June 2017, the Bank was the second largest bank in Ukraine in terms of equity capital and loans to customers and the third largest bank in Ukraine in relation to assets and amounts due to customers.

The Bank's Strengths

The Company believes that it benefits from the following strengths:

- *Strong Government Support*

  As a 100% State-owned entity, which plays one of the central roles in the Government's policies, the Bank benefits from strong state support. The credit ratings assigned to the Bank are indicative of such support, matching or being similar to the sovereign ratings of Ukraine published by Moody's (the Bank and the sovereign are both assigned a rating of Caa2) and Fitch (the Bank and the sovereign are both assigned a rating of B-).

- *Strong Balance Sheet (Statement of Financial Position) and Improving Portfolio Quality*

  The Bank's balance sheet (Statement of Financial Position) is largely comprised of what it considers to be lower risk assets. As at 30 June 2017, 19.3 per cent. of the Bank's total gross loan book comprised loans made to state-owned entities with the majority of the Bank's total corporate loan book comprising loans made to export-import-oriented corporates. Further, as at 30 June 2017, 42.8 per cent. of the Bank's assets comprised Ukrainian state bonds.

  As a result of the economic crisis in Ukraine, the Bank has significant levels of past due or individually impaired loans, however the Bank believes that it has recognised the majority of its problem loans with an allowance for a loan impairment charge as a percentage of the average gross loans decreasing to 5.7 per cent. as at 31 December 2016 from 12.2 per cent. as at 31 December 2015 and further decreasing to 2.1 per cent. (annualised) as at 30 June 2017. Further, the implementation of its strategy to support businesses that have passed the Bank's feasibility tests through the implementation of appropriate refinancing of existing exposures, including payment restructuring and/or deferral arrangements, have contributed to an overall improvement of the quality of the portfolio.

- *Systemic importance to the Government*

  The Bank enjoys a unique position among other banking institutions and state-owned banks in Ukraine. NBU statistics indicate that, as at 30 June 2017, the Bank was the second largest bank in Ukraine in terms of equity capital and loans to customers. In February 2016, the NBU determined the Bank, together with Privatbank and Oschadbank, to be systemically important. To identify systemically important banks, the NBU uses certain indicators of concentration of assets and liabilities compared to respective indicators of the banking system as a whole. The Bank is currently the only Ukrainian bank acting on behalf of the Government as a financial agent with respect to loans from foreign financial institutions originated, borrowed or guaranteed by Ukraine (the "**State**"). The Bank also has one of the most extensive networks of foreign correspondent banks among Ukrainian banks and has established correspondent relationships with wide range of banking institutions globally. As such it is systemically important to the Government.

- *The major partner for leading international financial institutions in Ukraine*

  The Bank is the major partner in Ukraine for a number of projects with leading international financial institutions (including the Export Development Project ("**EDP**"), the Second Export Development ("**EDP-2**"), Additional Financing for EDP-2 and the Energy Efficiency Project ("**EEP**") with the International Bank for Reconstruction and Development ("**IBRD**"), the Trade Facilitation Programme ("**TFP**"), the Energy Efficiency Project for small and medium-sized entities ("**SMEs**")("**SME EEP**") and the Ukraine Energy Efficiency Programme ("**UKEEP**") with the European Bank for Reconstruction and Development ("**EBRD**"), the Global Trade Finance Program ("**GTFP**") with the International Finance Corporation ("**IFC**"), the SMEs and mid-cap companies ("**Mid-Caps**") project with the European Investment Bank ("**EIB**") and the energy efficiency project ("**EEF**") with the Global Climate Partnership Fund ("**GCPF**"). Such projects are aimed at stimulating its clients' foreign economic and innovative activity, in particular with external term funding.

The Bank's Strategy

As defined in its Charter, the Bank's activities are aimed at the creation of favourable conditions for development of the economy, support of national producers, servicing export and import transactions, financial and credit support of structural reforms, enhancement and materialisation of the production and trade potential of export-oriented and import-substituting sectors and enterprises, as well as profit generation for the benefit of the Bank and its shareholder.

The Bank's strategy to achieve the objectives referred to above includes the following key components:

- maintaining its unique position as financial agent of the Government;
- maintaining its position as one of the leading Ukrainian banks in foreign trade finance and other related activities including continuing its international financing initiatives both within the existing framework agreements and by seeking to obtain new credit facilities from international banks;
- maintaining its international reputation, in particular by working with international institutions and export credit agencies;
- diversifying its customer base, with a focus on successful SMEs;
- diversifying its funding sources, including by increasing the volume of customers' deposits;
- diversifying its income, including by supplementing net interest income with increased levels of net fees and commission income; and
- further developing its risk management system, including implementing Basel 2 and subsequently Basel 3 principles.

In early February 2016, the Cabinet of Ministers of Ukraine published "*the Principles of State Banking Sector Strategic Reforms*" (the "**Reform Principles**"), upon which the Ministry of Finance has based its strategy in relation to the governance and commercialisation of state-owned banks, including the Bank and to resolving key issues negatively affecting their businesses. In the Reform Principles, the Government set out its intention to sell at least 20 per cent. of its shares in each of two state-owned banks (Oschadbank and the Bank). These sales were to be completed in the medium term, however specific dates were not set. On 21 February 2018, the Ministry of Finance published "*the Principles of Strategic Reform of the State-Controlled Banking Sector*" and a presentation on "*the Main Areas of Implementation of Strategic Principles*" (together, the "**Updated Strategy**"). The Updated Strategy indicates that the State will examine opportunities to sell minority shareholdings in the Bank to international financial institutions in the course of 2021 and 2022 and in the long term the State may consider the privatisation of the Bank taking into account banking market conditions (although the Updated Strategy does not specifically cover the period after 2022). See "*Risk Factors - Privatisation of the Bank.*" for further details.

OVERVIEW OF THE OFFERING

The following is a summary of certain information contained elsewhere in this Offering Circular. Reference is made to, and this overview is qualified in its entirety by, the more detailed information contained elsewhere in this Offering Circular.

Issuer/Lender: .... Biz Finance PLC.

Bank: .... Joint Stock Company "The State Export-Import Bank of Ukraine", 127 Antonovycha Street, Kyiv 03150, Ukraine.

Closing Date: .... 2 March 2018.

Deferred Interest An amount equal to the difference between the Due Interest and the Current Paid Interest (if any) shall remain due by the Issuer, but shall be deferred. See Condition 4 (*Interest*).

Issue Price: .... 100.00 per cent. of the principal amount of the Notes.

Interest: .... The Notes will bear interest from the Closing Date at a rate of 16.5 per cent. per annum payable semi-annually in arrear on 2 March and 2 September each year commencing on 2 September 2018.

Maturity Date: .... 2 March 2021.

Settlement in U.S. Dollars: .... Each of the Loan and the Notes will be denominated in hryvnia. All payments of principal and interest, and any other payments under the Loan and the Notes will, subject as provided below, be settled in U.S. Dollars, such U.S. Dollar amounts calculated by reference to the relevant Exchange Rate.

"**Exchange Rate**" means (i) the official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua) at or about 09.00 a.m. Kyiv time on the applicable Exchange Rate Determination Date (as defined in the Loan Agreement), or (ii) if it is not possible to determine a rate pursuant to (i) above, the rate calculated pursuant to the Survey Method (as defined in the Loan Agreement), or (iii) if it is not possible to determine a rate pursuant to (i) or (ii) above, the most recent official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua).

Notwithstanding the obligations of the Bank to make payment of amounts payable under the Loan, in U.S. Dollars, if the Exchange Rate cannot be determined in accordance with limbs (i) or (ii) of the definition of Exchange Rate, then the Bank may make payment of amounts payable in respect of the Loan in hryvnia provided that (i) the Resolution of the Board of the National Bank of Ukraine "*On Carrying Out Currency Transactions under Facilities, Loans Borrowed from Non-Residents on Special Terms*" No. 12 dated 15 February 2018 (the "**UAH Loans Resolution**") is amended, replaced or re-enacted so that the requirement in the UAH Loans Resolution existing on the date hereof that payments under loan agreements to which the UAH Loans Resolution applies should be made only in foreign currency is revoked; (ii) the Bank is permitted under Ukrainian law to make such payments in hryvnia to the Issuer and the Issuer is able to accept a payment in hryvnia; and (iii) the Bank and the Issuer provide notification in writing to the Trustee, the Agents and the Noteholders that it will make such payments not later than 10 business days prior to the date of such payments. Upon request by the Bank, the Issuer shall take reasonable steps to set up an account denominated in hryvnia (which may be an account in the name of the Issuer with the Bank), to facilitate such payment. Promptly upon opening any such account denominated in hryvnia, the Issuer shall grant security over such account to the Trustee for and on behalf of the Noteholders. The Issuer shall be under no obligation to convert hryvnia amounts received by it into U.S. Dollars.

To the extent that the Issuer receives amounts due and payable in hryvnia and does not convert such amounts into U.S. Dollars, it shall promptly notify the Trustee, the Agents and the Noteholders thereof and request each Noteholder to provide instructions to the Issuer regarding the payment to such Noteholder of its proportionate share of such amounts. Each Noteholder shall, at its own cost and subject to providing the Issuer with such information as it may reasonably require, including (but not limited to) proof of holding, be entitled to instruct the Issuer to pay to such Noteholder its proportionate share of such hryvnia amounts to an appropriate account stipulated by such Noteholder. Any such instructing Noteholder will be required to open and maintain appropriate multi-currency accounts to receive payment of any such funds. The costs of opening such accounts and taking any further steps as may be required in order to receive such payments in hryvnia shall be borne by the Noteholder. Neither the Issuer nor the Trustee or any Agent shall incur any liability to any Noteholder in respect of any action taken, omitted or permitted to be taken, in good faith in accordance with any instruction from a Noteholder in connection with any payment made to such Noteholder in hryvnia.

Pricing Date Exchange Rate:............................ UAH/USD 27.006610/1.000, being the exchange rate to be used to calculate the hryvnia equivalent of the gross U.S. Dollar subscription proceeds of the Notes, being the rate published by the NBU (as defined in the Conditions) on 27 February 2018.

Early Redemption by the Issuer: .... The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the Noteholders, at the principal amount thereof together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, upon receiving notice that the Bank wishes to prepay the Loan for tax reasons, or by reason of any change of law, or in the event that it becomes unlawful for the Issuer to make the Loan or allow to remain outstanding the Loan under the

Loan Agreement, as more fully described in Clauses 7.1 (*Prepayment for Tax Reasons and Change in Circumstances*) and 7.2 (*Prepayment for Illegality*) of the Loan Agreement. See also *Condition 5(b) (Redemption by the Issuer*).

Optional Redemption by the Noteholders upon Change of Control: .... On the occurrence of a Change of Control (as defined in the Loan Agreement), the Issuer will make an offer to purchase all or any part of the Notes and each Noteholder shall have the option to give notice or procure that notice is given for the repayment of the applicable amount of the Loan. Each Note held by the relevant Noteholder shall be redeemed on the Change of Control Payment Date (as defined in the Conditions) at its principal amount together with accrued and unpaid interest plus additional amounts, if any. See Condition 5(c) (*Redemption and Purchase — Redemption at the option of the Noteholders upon a Change of Control*).

Events of Default/Relevant Events: .... In the case of the occurrence and continuance of an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Conditions), the Trustee may, subject as provided in the Trust Deed, (a) require the Issuer to declare all amounts payable by the Bank under the Loan Agreement to be due and payable (in the case of an Event of Default) or (b) enforce the Security Interests (as defined in the Conditions) in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due in respect thereof pursuant to Condition 8 (*Taxation*), and thereupon shall cease to be outstanding.

Issuer's Covenants: .... As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. The Issuer shall take all reasonable steps required to be, or refrain from taking any action that would prevent it from being, classified as a securitisation company within the framework of the Securitisation Company Regulations 2006 (as amended from time to time) of the United Kingdom.

Status: .... The Notes will constitute the obligations of the Issuer to apply the proceeds for the purpose of financing the Loan to the Bank pursuant to the terms of the Loan Agreement. The obligations of the Issuer to make payments under the Notes constitute direct and general obligations of the Issuer and the Notes will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for those obligations as may be preferred by provisions of law that are both mandatory and of general application. The

Issuer will account to the Noteholders solely for amounts equivalent to those (if any) received from the Bank under the Loan Agreement as provided for in the Conditions and less amounts in respect of Reserved Rights (as defined in the Conditions). See Condition 1 (*Form, Denomination and Status*) and Condition 4(b) (*Calculation of Interest*).

Limited Recourse to the Issuer: .... The Notes are limited recourse obligations of the Issuer. In each case where amounts are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to Noteholders, on each date upon which such amounts are due in respect of the Notes, for all amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement as provided for in the Conditions and less amounts in respect of the Reserved Rights (as defined in the Conditions); any shortfall will remain due but will be deferred and (unless sufficient additional amounts are received on the Loan) no longer due and payable. The Issuer will have no other financial obligation under the Notes. Accordingly, Noteholders are deemed to have accepted that they will be relying on the covenants, the credit and financial standing of the Bank in respect of the payments under the Notes, the performance by the Bank of its obligations under the Loan Agreement and Noteholders will bear any exchange rate risk and other risks in connection with the settlement of such payments due to the Noteholders in U.S. Dollars. The Issuer shall have no responsibility, obligation or liability whatsoever towards Noteholders in relation to such risks or any loss suffered by Noteholders as a result thereof.

Form and Initial Delivery of Notes: .... The Notes will be constituted by the Trust Deed. The Notes will be issued in registered form. The Notes will be in the denomination of UAH 6,000,000 each and integral multiples of UAH 50,000 in excess thereof and will be represented by the Global Note. The Notes are being offered and sold outside the United States in reliance on Regulation S and will be represented by interests in the Global Note deposited with The Bank of New York Mellon, London Branch as common depositary for, and registered in the name of The Bank of New York Depository (Nominees) Limited as nominee of, Euroclear or Clearstream, Luxembourg on or about the Closing Date.

Noteholders will be required to pay their subscription monies in U.S. Dollars. The aggregate amount converted into hryvnia (which amount shall be calculated using the Pricing Date Exchange Rate) shall be the principal amount of the Notes. The gross proceeds of the Notes will be used by the Issuer to make the Loan to the Bank, which Loan shall be denominated in hryvnia.

The Global Note will be exchangeable in certain limited circumstances for Notes in definitive, fully registered form in denominations of UAH 6,000,000 and integral multiples of UAH 50,000 in excess thereof, without interest coupons attached. See "*Summary of Provisions Relating to the*

Notes in Global Forms".

Further Issues:	The Issuer may from time to time, with the consent of the Bank but without the consent of the Noteholders, in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and/or the first payment of interest) so as to form a single series with the Notes. See Condition 14 (*Further Issues*).
Selling Restrictions:	The Notes and the Loan have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons. The Notes may be sold in the United Kingdom, the Russian Federation, the Republic of Italy, Singapore and Hong Kong only in compliance with applicable laws. The Notes have not been registered in Ukraine and may not be offered or sold within Ukraine. The offer and sale of the Notes may also be restricted in other jurisdictions. See "*Selling Restrictions*".
Use of Proceeds:	The Issuer will use the proceeds of the Notes for the purpose of financing the Loan denominated in hryvnia. The Bank will pay commissions and fees separately in connection with the offering. The proceeds from the Loan available to the Bank will be used by the Bank primarily for general banking purposes. See "*Use of Proceeds*".
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any taxes, duties, assessments, fees or other governmental charges of the Relevant Taxing Jurisdiction (as defined in the Conditions) save as required by law or as expressly provided under Condition 8 (*Taxation*). If any such withholding or deduction is so required, the Issuer shall (subject to the withholding described in the following paragraph and certain other exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. The sum payable by the Bank under the Loan Agreement will be required (subject to the withholding described in the following paragraph and certain other exceptions) to be increased to the extent necessary to ensure that the Issuer receives a net sum sufficient to enable it to pay such additional amounts. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Bank. See Condition 8 (*Taxation*). If at the time of the repayment or prepayment of the Loan by the Bank the U.S. Dollar equivalent of the UAH principal amount of the Loan (or any part thereof) to be repaid or prepaid is higher than the U.S. Dollar equivalent of such UAH principal amount of the Loan (or the respective part thereof) received by the Bank on the Closing Date (such excess hereinafter the "**USD Positive**

	Difference"), the Bank may be required to withhold Ukrainian tax (currently, at the rate of 15 per cent.) on the amount of the USD Positive Difference at the time of repayment or prepayment. Pursuant to the Loan Agreement, the Bank will not be required to pay any additional amounts to Noteholders on account of any such taxation of the USD Positive Difference.
Loan:..	The UAH 4,051,000,000.00 loan (the "**Loan**") to be provided by the Issuer in its capacity as lender under the Loan Agreement to the Bank and which will be settled in U.S. Dollars. The Loan will constitute the direct, unconditional and unsecured obligation of the Bank. In the case of a liquidation (bankruptcy) of the Bank, the repayment of the principal amount of the Loan will rank at least *pari passu* with other unsecured and unsubordinated creditors of the Bank, save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.
Negative Pledge and other Covenants:...........	The Loan Agreement contains a negative pledge in relation to the creation of Security Interests (other than Permitted Security Interests) (each as defined in the Loan Agreement) to secure the Indebtedness of the Bank and its Material Subsidiaries (each as defined in the Loan Agreement). The Loan Agreement also contains covenants restricting mergers and disposals by the Bank and transactions between the Bank and its Affiliates (as defined in the Loan Agreement). The Loan Agreement also contains a covenant by the Bank to comply with the minimum total capital adequacy ratio permitted by the National Bank of Ukraine.
Securities Codes:...	ISIN XS1713473517 Common Code 171347351
Governing Law and Jurisdiction:..................	The Notes and all related contractual documentation, including any non-contractual obligations arising out of or in connection with the Notes and any related contractual documentation (other than as referenced above), are governed by, and shall be construed in accordance with, English law. The place of jurisdiction will be the courts of England and the parties to the Loan Agreement have also agreed to refer and settle any claim thereunder in accordance with the LCIA Arbitration Rules. The Loan Agreement, including any non-contractual obligations arising out of or in connection therewith, is governed by English Law, subject to compliance with certain mandatory provisions of Ukrainian legislation. See the "*Loan Agreement*" and "*Risk Factors*".
Joint Lead Managers:......................................	Citigroup Global Markets Limited and J.P. Morgan Securities plc.

Principal Paying Agent and Transfer Agent: .	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent:	The Bank of New York Mellon SA/NV, Luxembourg Branch
Trustee:	BNY Mellon Corporate Trustee Services Limited.
Risk Factors:	For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "*Risk Factors*".
Rating:	The Notes are expected to be rated by Fitch Ratings CIS Limited ("**Fitch CIS**"). This credit rating is expected to be issued by Fitch CIS which is established in the European Union and has applied for registration under the CRA Regulation but is not, as at the date of this Offering Circular, registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Listing and Trading:	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its Global Exchange Market. The listing of the Notes and admission to trading is expected to be effective on or about 2 March 2018.
Listing Agent:	Arthur Cox Listing Services Limited.

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under the "Loan Agreement" and the Conditions appearing elsewhere in this Offering Circular.

The transaction will be structured as a loan to be provided by the Issuer in its capacity as lender under the Loan Agreement to the Bank which will be denominated in hryvnia and settled in U.S. Dollars. The transaction involves the issuance of hryvnia denominated Notes, which are to be subscribed in U.S. Dollars. On or about the Closing Date, the Bank shall, at the instruction of the Issuer, calculate the equivalent hryvnia amount in accordance with the terms of the Loan Agreement. Such hryvnia amount shall constitute the principal amount of the Loan and shall equal the total principal amount of the Notes. See "*Risk Factors - The amount of interest and principal payments on the Notes in U.S. Dollars will depend on the exchange rate between hryvnia and the U.S. Dollar at the time of the relevant payment*". The Bank will pay commissions and fees separately in connection with the offering.

Pursuant to the Loan Agreement, the Bank shall (except in certain limited circumstances as set out in Condition 7 (*Settlement*)) pay interest, principal and any Additional Amounts relating to the Loan into the Account in U.S. Dollars. See "*The Loan Agreement*" and "*Risk Factors - The amount of interest and principal payments on the Notes in U.S. Dollars will depend on the exchange rate between hryvnia and the U.S. Dollar at the time of the relevant payment*".

The Notes are limited recourse obligations to be issued by the Issuer for the purpose of financing the Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge by way of security to the Trustee (a) all its rights, interests and benefits in and to (i) principal, interest and other amounts under the Loan Agreement; and (ii) all amounts under or in respect of any claim, award or judgment relating to the Loan Agreement (in each case other than the Reserved Rights and any amounts relating to Reserved Rights); and (b) all its rights, interests and benefits in and to any and all sums held from time to time in the Account (as defined in the Loan Agreement) with the Principal Paying Agent in the name of the Issuer together with the debt represented thereby (except to the extent such debt relates to Reserved Rights).

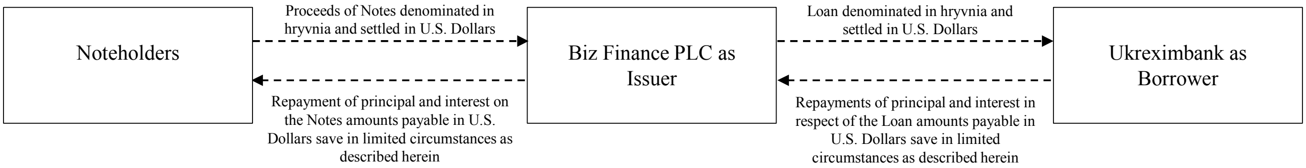
The Issuer will also assign certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. The Bank will be obliged to make payments under the Loan Agreement to the Issuer in accordance with the terms of the Loan Agreement to the Account. The Issuer will agree in the Trust Deed not to make any amendment or any modification or waiver of or authorise any breach of or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Loan Agreement. The Issuer will further agree to act at all times in accordance with any instruction of the Trustee from time to time with respect to the Loan Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to the Bank and the Principal Paying Agent, who will each be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.

In connection with the Loan, the Issuer and the Bank have entered into the Loan Agreement which sets out the obligations of the Bank to make principal and interest payments in connection with the Loan.

The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payments of all amounts received by it under the Loan Agreement (except for certain interest as set out in Condition 4(b) (*Calculation of Interest*) and less the Reserved Rights which the Issuer is entitled to retain from any amounts actually received).

Set out below is a diagrammatic representation of the structure following the issue of the Notes:



RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this Offering Circular and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The materialisation of the risks highlighted below, individually or together, could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects which, in turn, could have a material adverse effect on its ability to service payment obligations under the Loan Agreement and, as a result, the Issuer's ability to pay amounts due on the Notes. In addition, the value of the Notes could decline due to any of these risks, and the Noteholders may lose some or all of their investment.

Risks Relating to the Bank

The Bank may be unable to comply with all NBU and other regulatory ratios.

Since the financial crisis, the Bank, in line with other systemically important banks in Ukraine, has experienced an unprecedented combination of adverse factors, which resulted in a sharp decline in the credit quality of its loan portfolio and consequently a substantial increase in its loan loss provisions. In addition, due to changes in the regulatory environment, the Bank was unable to eliminate its exposure to losses resulting from depreciation in the foreign exchange rate of the hryvnia. These two factors resulted in realised and unrealised losses, and consequently adversely affected a number of key financial ratios, of the Bank. The Bank's NBU capital adequacy ratio reached 2.4 per cent. and its total and Tier 1 capital adequacy ratios calculated in accordance with the Basel Capital Accord 1988 (the "**Basel Capital Adequacy Ratio**") each reached negative 4.1 per cent., in each case as at 31 December 2015. Principally as a result of successive capital injections by the State, the Bank's key ratios have improved, showing an NBU capital adequacy ratio of 9.9 per cent. as at 31 December 2016 and 17.0 per cent. as at 30 June 2017 and a Basel Capital Adequacy Ratio of 9.6 per cent. (Tier 1 at 5.8 per cent.) as at 31 December 2016 and 23.7 per cent. (Tier 1 at 17.9 per cent.) as at 30 June 2017.

In the light of challenges the banking system in Ukraine is experiencing, the NBU has temporarily waived any sanctions or other regulatory consequences of non-compliance with certain reported financial ratios and amended certain reported ratios with respect to the Bank. In 2015 certain Ukrainian banks (including the Bank) underwent stress testing pursuant to the resolution of the board of the NBU "On Conducting Stress Tests of Banks" No. 260 dated 15 April 2015 (the "**Stress Tests Resolution**"). The current requirements as to the minimum capital adequacy ratio for the Bank are determined on the basis of the Stress Test Resolution and are different from those that were applicable to the Bank previously.

Notwithstanding the actions of the NBU, there can be no assurance that the NBU would not impose sanctions on the Bank (including the revocation of its banking licence) for breach of applicable capital adequacy ratios and other financial indicators, or amend existing thresholds such that the Bank is unable to meet them, either of which scenario would have an adverse impact on the Bank's business, results of operations, financial condition and/or prospects.

Developments in Crimea and certain parts of the Donetsk and Luhansk regions have significantly affected and may continue to affect the Bank.

In response to geopolitical developments in Crimea and certain parts of the Donetsk and Luhansk regions in Eastern Ukraine, the Bank has closed branches and outlets in these regions. The share of gross loans provided to the customers located in those regions constitutes 6 per cent. of the Bank's gross loan portfolio as at 30 June 2017 and these loans were either fully provisioned or, where the borrowers moved their business to other regions of Ukraine, restructured. With respect to those loans that are not able to be restructured, there is substantial uncertainty as to the ability of the Bank to enforce and collect amounts payable under such loans in the future.

The negative effects of these geopolitical developments on the infrastructure and economy of Ukraine and on key clients of the Bank located in certain parts of the Donetsk and Luhansk regions have been severe, which has in turn had material adverse effect on the Bank's financial condition. See "*Risks Relating to Ukraine—The conflict in certain parts of the Donetsk and Luhansk regions in Eastern Ukraine has had, and may continue to have, negative humanitarian, economic and political consequences for Ukraine*" and "*—The* *occupation and attempted annexation of Crimea and the City of Sevastopol has adversely affected and is likely to continue to adversely affect Ukraine's economic and political stability*".

There is no assurance that the Bank will not incur further costs or liabilities with respect to these events or potential further actions by Russian or Ukrainian authorities or other Russia-backed illegal armed formations in certain parts of the Donetsk and Luhansk regions and in the Crimea. Should the geopolitical situation deteriorate or large scale hostilities resume despite the ceasefire brokered by the Minsk arrangements (the ceasefire arrangements brokered by France and Germany with Russia's participation in September 2014 and which were further negotiated in February 2015) (the "**Minsk Arrangements**"), the Bank may experience further disruptions to its operations in these regions or may have to restrict or close more or all of operations in all or some of those regions. Additionally, any such hostilities could continue to have an indirect effect on the Bank's operations through the destruction of infrastructure and industry, negative effects on clients of the Bank and a further decline in the level of foreign investment in Ukraine. Such events would have material adverse effect on the operations and financial condition of the Bank.

The quality of the Bank's loan portfolio has deteriorated and may suffer further deterioration.

Since the beginning of 2014, the Bank has experienced substantial deterioration in the quality of its loan portfolio that resulted in a substantial increase of past due or individually impaired loans during 2014, the level of which stabilised during 2015 and 2016. As at 30 June 2017, the level of past due or individually impaired loans as a percentage of total gross loans constituted 63.4 per cent., compared to 63.0 per cent. and 62.5 per cent. as at 31 December 2016 and 31 December 2015 respectively. Allowance for loan impairment as a percentage of past due or individually impaired loans comprised 70.4 per. cent as at 30 June 2017. See also "*Selected Statistical Data and Other Information — Loan Portfolio*".

Pursuant to NBU regulations, a loan is classified as non-performing if it is past due more than 90 days (30 days for debtor banks) and/or if the debtor cannot perform its obligations in full without the foreclosure of collateral (if applicable). A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an "incurred loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, an increased probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. While the Bank has recognised the majority of its non-performing loans as a result of the economic crisis in Ukraine, with an allowance for a loan impairment charge as a percentage of the average gross loans decreasing to 5.7 per cent. as at 31 December 2016 from 12.2 per cent. as at 31 December 2015 and further decreasing to 2.1 per cent. (annualised) as at 30 June 2017, any continued deterioration in, or stagnation of, Ukraine's political and economic situation, may reverse this trend.

As a result of the economic crisis in Ukraine, the Bank has significant levels of past due or individually impaired loans. Where possible, the Bank seeks to renegotiate loans rather than to take possession of collateral; this may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. There can be no assurance that such loans would not become past due or individually impaired in the future, notwithstanding the restructuring.

Any further deterioration in the quality of the Bank's loan portfolio may have a material adverse effect on the Bank's business, results of operations, financial condition and/or prospects.

The Bank is subject to foreign exchange risk and is particularly affected by changes in the value of the hryvnia against other currencies.

As a result of the devaluation in the national currency over the past three years, the liabilities of the Bank denominated in foreign currency have substantially increased in terms of Ukrainian hryvnia and as at 30 June 2017 constituted 82.6 per cent. of the Bank's total liabilities. This resulted in a material increase of the Banks short open foreign exchange position and the Bank's exposure to foreign exchange risk as a result of adverse movements in exchange rates. The revaluation of its open foreign exchange position as a result of exchange rate fluctuations has had a material impact on the Bank's non-interest income. The fluctuations in the hryvnia/U.S. dollar exchange rate have also had a substantial effect on the Bank's compliance with the applicable capital adequacy ratios. See "*—The Bank may be unable to comply with all NBU and other regulatory ratios*".

In addition, existing NBU regulations restrict the daily net balance of foreign currency purchase transactions by banks to 1 per cent. of the bank's regulatory capital (subject to certain exceptions). As a result Ukrainian banks manage their foreign exchange exposures by matching assets and liabilities in each currency. Currently the Bank predominantly utilises the purchase of index-linked treasury bills issued by the government to manage its foreign exchange exposures.

Furthermore, the sharp devaluation of hryvnia in 2014 and 2015 had a substantial negative impact on some of the Bank's customers and contributed to the deterioration of, and defaults in, the Bank's loan portfolio.

Should substantial new currency regulations be introduced, or the currency regulations remain subject to frequent change or uncertain application, it may affect the Bank's ability to manage its liquidity and currency risks. See "*Recent Developments in Ukraine – Ukraine – Currency Depreciation*" and "*—The Ukrainian currency is subject to depreciation and volatility*" below.

Any further fluctuations in foreign exchange rates or regulations relating thereto may have a material adverse effect on the Bank's business, results of operations, financial condition and/or prospects.

The Bank's investment portfolio is highly concentrated in government bonds.

The Bank's investment in securities is highly concentrated in government bonds which constituted 97.8 per cent. of investment securities, 42.8 per cent. of total assets, or UAH 72,077 million as at 30 June 2017, compared to 97.2 per cent. of investment securities, 43.9 per cent. of total assets or UAH 70,366 million as at 31 December 2016 and 92.2 per cent. of investment securities, 33.5 per cent. of total assets or UAH 47,319 million as at 31 December 2015. The government bonds are denominated in hryvnia, U.S. Dollars and euros. The significant majority of these government bonds were received in exchange by the Government for additional issues of shares in the Bank as a result of capital injections by the State.

This concentration has been driven primarily by the difficulty in finding suitable alternative financing and investment transactions meeting the Bank's conservative lending and other policies and the impact of the hryvnia devaluation since 2014, following which the Bank has maintained a considerable proportion of its investable funds in government bonds.

In 2015, the Government restructured its external debt to be able to secure funding from the International Monetary Fund (the "**IMF**") under the IMF's four year U.S.$17.5 billion Extended Fund Facility approved by the IMF on 11 March 2015 (the "**2015 EFF**"). While to date, the Government has only restructured external debt and given no indication that it intends to restructure domestic debt, no assurance can be given that the Government will not decide in future to include domestic debt in the restructuring exercise related to the 2015 EFF or any other restructuring plan. Any restructuring of domestic or external debt, which may include Government bonds held by the Bank, may adversely affect the value of the Bank's securities portfolio and financial condition and operating results of the Bank.

In the event that the Ukrainian Government defaults on, or restructures its obligations or suffers a ratings downgrade, the value of such bonds decline or if there is some other interruption in the market for government bonds or there are adverse fluctuations in the hryvnia – foreign currency exchange rates, the Bank may suffer losses and/or will need to seek other alternatives to maintain margins, which may subject it to greater credit risk and challenges around the required capital. The Bank's business, results of operations, financial condition and/or prospects could be materially and adversely affected. See also "*The Bank is exposed to prices of investment securities*".

The Bank may fail to comply with certain covenants in its financing agreements.

The Bank is subject to certain capital adequacy requirements in accordance with the applicable provisions of Ukrainian law and regulations of the NBU. See "*—The Bank may be unable to comply with all NBU and other regulatory ratios*" above. Non-compliance with such capital adequacy requirements may cause the Bank to be in breach of covenants under certain of its financing agreements, including the loan agreements under its existing Eurobonds which in aggregate amount to U.S.$1.475 billion. Breach of such covenants may entitle the lenders under the relevant loan agreements to cancel commitments under such loan agreements, suspend any further disbursement and/or to declare any amounts outstanding under such loan agreements to be immediately payable.

Certain of the loan agreements to which the Bank is a party also contain covenants that require the Bank (in the event its ratings have declined below a certain specified level) to comply with higher capital adequacy ratios than those imposed by the NBU. There can be no assurance that the relevant lenders will consent to any required waivers or amendments for any such breaches of covenants.

As a result, non-compliance of the Bank with applicable capital adequacy ratio or other covenants in its financing agreements or its failure to obtain relevant waivers in respect thereof may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank relies on maintaining good relations with its shareholders.

As a state owned Bank, all of the issued share capital of the Bank is currently owned by the State of Ukraine and controlled by the Government. Moreover, the Charter of the Bank lists among its objectives, in addition to the Bank's purely commercial aims, the furtherance of some wider, macroeconomic goals.

According to the Bank's Charter and relevant Ukrainian legislation, the Bank has been constituted as an autonomous entity, and is fully independent of the State in its day-to-day decisions and performance of its normal business activities. The Government exercises its rights as a sole shareholder through the Bank's Supervisory Council, which determines priority areas, strategy and objectives of the Bank to protect the interest of the State, as the Bank's sole shareholder. Accordingly, while the State has respected the Bank's operational independence, the Bank's strategic mission – to support Ukrainian exports – has been set by the State and some of the other principal strategies of the Bank are also closely aligned with the State's priorities, such as improving the energy efficiency of Ukrainian enterprises. There can be no assurance that the current government formed or any future government will continue to respect the Bank's operational independence.

There can be no assurance that possible changes in Ukrainian legislation would not create conflicts with the Government. Any such conflicts could impact the profitability of the Bank and have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Substantial levels of concentration in the Bank's loan portfolio and clients' funds

There is a high level of concentration in both the Bank's lending portfolio and its clients' funds (comprising customers' current accounts and term deposits).

As at 31 December 2016, the Bank had a concentration of loans from the ten largest borrowers totalling UAH 46,472 million (44.7 per cent. of the gross loan portfolio) compared with UAH 39,945 million or 41.6 per cent. as at 31 December 2015. Loans provided to state entities totalled UAH 20,040 million (19.3 per cent. of the gross loan portfolio) as at 31 December 2016 compared with UAH 18,159 million (18.9 per cent. of the gross loan portfolio) as at 31 December 2015. Loans to one state-owned entity operating in the extractive industry constituted UAH 10,582 million (18.1 per cent. of the net loan portfolio) as at 31 December 2016 compared to UAH 9,437 million (17.1 per cent. of the net loan portfolio) as at 31 December 2015. See Note 8 (*Loans to customers*) to the Audited Financial Statements of the Bank for the year ended 31 December 2016 and "*Risk Factors – There can be no assurance that the Bank will be recapitalised by its shareholder*".

As at 31 December 2016, legal entities current accounts included funds deposited by the Bank's top ten customers totalling UAH 5,041 million (28.6 per cent. of legal entities current accounts), compared with UAH 3,471 million or 25.7 per cent. as at 31 December 2015. As at 31 December 2016, term deposits of legal entities included funds raised from five customers totalling UAH 28,550 million (72.8 per cent. of term deposits of legal entities) compared with UAH 27,046 million, or 73.8 per cent. as at 31 December 2015. Amounts due to one state-owned entity operating in the agriculture and food industry constituted UAH 27,359 million (31.9 per cent. of the total amounts due to customers) as at 31 December 2016 compared to UAH 25,459 million (32.1 per cent. of the total amounts due to customers) as at 31 December 2015. See Notes 18 (*Amounts due to customers*) and 29 (*Related party disclosures*) to the Audited Financial Statements of the Bank for the year ended 31 December 2016 and "*Risk Factors – There can be no assurance that the Bank will be recapitalised by its shareholder*".

The Bank is currently unlikely to be able to significantly diversify its loan portfolio by lending to new customers due to the decrease in the number of potential borrowers with a high level of creditworthiness as a result of the impact of economic crisis in Ukraine discussed below in these risk factors.

In adverse economic conditions and in an uncertain political environment, these concentrations could have a material adverse effect on the Bank's business, results of operations, financial condition and/or prospects.

The Bank is dependent on key management and qualified personnel.

The Bank is dependent on members of its Board for the implementation of its strategy. Moreover, the Bank's continued success will depend, in part, on its ability to continue to retain, motivate and attract, in cases where needed, qualified and experienced personnel. Competition in the Ukrainian banking sector for such personnel is considerable, and attracting qualified personnel from outside of Ukraine has been rendered increasingly difficult by the recent conflicts in Ukraine described elsewhere in these risk factors. While the Bank believes it has effective staff recruitment, training and incentive programmes in place, a failure to recruit, train and/or retain necessary personnel could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

There can be no assurance that the Bank will be recapitalised by its shareholder.

The adverse economic and political factors in Ukraine had a significant impact on the Bank's business which ultimately resulted in the Bank being in negative equity at the end of 2015 (negative UAH 3,060 million as at 31 December 2015). Principally as a result of successive capital injections by the State amounting to a total of UAH 22,041 million since 2014 (comprising injections of UAH 5,000 million in December 2014, UAH 9,319 million in January 2016, UAH 3,022 million in February 2017 and UAH 4,700 million in March 2017), the Bank has returned to positive equity, showing total equity of UAH 5,360 million as at 31 December 2016 and UAH 14,094 million as at 30 June 2017. See "*The Bank – Restructuring and Recovery – Recovery and Recapitalisation*".

Notwithstanding these successive capital injections, the Bank's shareholder has no contractual or other obligation to make any capital contribution to the Bank or to otherwise advance any form of financing to the Bank. Unless the terms of the relevant indebtedness expressly so provide, neither Ukraine nor any governmental institution of Ukraine guarantee any indebtedness of the Bank. Accordingly, Noteholders have no recourse against Ukraine or any governmental institution of Ukraine.

There can be no assurance that any further capital contributions, were they to be required, would be made in the future. Failure by the Bank to obtain further capital, whether by engaging in transactions with its shareholder or otherwise, may have a material adverse effect on the Bank's business, results of operations, financial condition and/or prospects.

The Bank may face liquidity risks

The Bank has relied on term deposits and current accounts of corporate and individual customers and international borrowings, comprising the Bank's Eurobonds and funds raised from international financial institutions to meet its funding needs. Adverse economic conditions in Ukraine resulted in withdrawal of deposits by Ukrainian customers during 2014 and 2015. In addition, due to the generally low liquidity of the Ukrainian market, there are limited opportunities to sell or factor some of the Bank's assets other than highly-liquid assets. The decreases in corporate client deposits and/or significant levels of withdrawals of retail deposits may result in liquidity gaps that the Bank will need to cover.

The Bank may also be exposed to maturity mismatches between its assets and liabilities (including currency mismatch), which may lead to a lack of liquidity at certain times. See "*Risk Management — Liquidity Risk*".

Deterioration of Ukrainian companies' liquidity, or of conditions in the Ukrainian and international capital, syndicated loan and interbank markets, significant withdrawals of corporate and retail deposits and maturity mismatches between the Bank's assets and liabilities, may, together or separately, have a material adverse effect on the Bank's business, results of operations, financial condition and prospects. See "*Risk Factors – There can be no assurance that the Bank will be recapitalised by its shareholder*" and "*Risk Management — Liquidity Risk*".

Privatisation of the Bank.

The Bank is currently wholly-owned by the State of Ukraine. In early February 2016, the Cabinet of Ministers of Ukraine published the Reform Principles, upon which the Ministry of Finance has based its strategy in relation to the governance and commercialisation of state-owned banks and to resolving key issues negatively affecting their businesses. In the Reform Principles, the Government set out its intention to sell at least 20 per cent. of its shares in each of two state-owned banks (Oschadbank and the Bank). These sales were to be completed in the medium term, however specific dates were not set. On 21 February 2018, the Ministry of Finance published the Updated Strategy which provides for the following in respect of the Bank:

- the State will examine opportunities to sell minority shareholdings in Bank to international financial institutions in the course of 2021 and 2022; and

- in the long term, the State may consider the privatisation of the Bank taking into account banking market conditions (although the Updated Strategy does not specifically cover the period after 2022).

In addition, the Updated Strategy provides that in the first quarter of 2018, a specific strategy and a transformation plan for the Bank will be developed; and in the second quarter of 2018, the specific strategy for the Bank will be approved.

Prospective investors should be aware that there can be no assurance that the Updated Strategy with respect to the Bank may not be materially amended or that privatisation of the Bank will not occur while the Notes are outstanding. The Conditions provide that the Bank may be required to prepay the Loan following a Change of Control (as defined in the Loan Agreement). See Condition 5(b) *(Redemption by the Issuer*) and Clause 7.3 (*Prepayment in the event of a Change of Control*) of the Loan Agreement.

Interest rates to which the Bank is exposed may be volatile.

In the last few years, the Bank's results of operations have depended to a great extent on its net interest income. Net interest income represents a significant portion of the Bank's operating profit. In the year ended 31 December 2016, net interest income increased by 35.1 per cent. to UAH 3,234 million from UAH 2,393 million for the same period in 2015. During the first half of 2017, net interest income of the Bank decreased by 8.9 per cent. to UAH 1,500 million from UAH 1,643 million for the same period in 2016.

The Bank's high dependence on net interest income may challenge the stability of its earnings. Fluctuations in interest rates could adversely affect the Bank's net interest income in a number of different ways. An increase in interest rates may generally decrease the value of the Bank's fixed rate loans and raise the Bank's funding costs. In addition, an increase in interest rates may increase the risk of customer default, while general volatility in interest rates may result in a gap between the Bank's interest rate sensitive assets and liabilities. The sensitivity of the Bank's consolidated profit and loss (consolidated income statement) to an assumed change in interest rates as at 31 December 2016, was assessed to be the following:

- an increase of NBU key policy interest rates by 1 per. cent could increase the profit of the Bank by UAH 2 million;

- an increase of LIBOR by 0.75 per. cent could decrease the profit of the Bank by UAH 110 million;

- an increase of EURIBOR by 0.75 per. cent could decrease the profit of the Bank by UAH 2 million,

(based on the floating rate non-trading financial assets and financial liabilities held). See Note 25 "*Risk management. Interest rate risk*" of the Audited Financial Statements of the Bank for the year ended 31 December 2016.

As a result, the Bank may incur additional costs and expose itself to other risks as a result of adjusting asset and liability positions. Interest rates are highly sensitive to many factors beyond the Bank's control, including the reserve policies of the NBU, domestic and international economic and political conditions and other factors. There can be no assurance that the Bank will be able to protect itself from the negative effects of future interest rate fluctuations. Further changes in market interest rates could affect the interest rates earned on interest earning assets differently, leading to a reduction in the Bank's net interest income and having a material adverse effect on its business, results of operations, financial condition and/or prospects.

Neither the Interim Nine Month Financial Statements nor the figures pertaining to the Bank's full year results as published on the NBU's website have been reviewed or audited by EY and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review.

The Interim Nine Month Financial Statements have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Offering Circular. In keeping with the current practice of publishing information relating to the banking sector, the NBU has made available the Preliminary 2017 Year End Financial Information on its website relating to Ukrainian banks, including the Bank, as at year end 2017. Neither the Interim Nine Month Financial Statements nor the Preliminary 2017 Year End Financial Information have been reviewed by EY or any other independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. The Preliminary 2017 Year End Financial Information has not been subject to the completion of the normal year end closing process and final adjustments may arise before the financial results for the year are finalised. Potential investors should exercise caution if using such data to evaluate the Bank's financial condition and results of operations. The Interim Nine Month Financial Statements should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year.

There is a risk of further instability of the Ukrainian banking sector.

The banking sector in Ukraine has in recent years suffered from mass withdrawals, currency depreciation, lack of access to international capital markets and other effects due to the decline in Ukraine's economy, which has led to many Ukrainian banks being declared insolvent by the NBU or liquidated. In the past three years, the National Bank of Ukraine has revoked banking licenses of a number of undercapitalised banks. See "*— Risk Factors Relating to Ukraine— The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy*". The Bank is subject to the risk of further deterioration of the stability of the banking sector in Ukraine. Financial institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Bank interacts on a daily basis, all of which could have an adverse effect on the Bank.

The Bank routinely executes a high volume of transactions with counterparties in the financial services industry, including commercial banks and other financial institutions. As a result, the Bank is exposed to counterparty risk, and this counterparty risk is heightened due to the impact of the global financial crisis, notwithstanding the anti-crisis measures taken by the Bank in this regard. A default by, or concerns about the stability of, one or more financial institutions (whether or not a counterparty of the Bank) could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on the Bank's business, result of operations, financial condition and prospects.

The Bank is exposed to prices of investment securities.

The Bank's financial condition and operating results are also affected by changes in market values in the Bank's securities portfolio. As at 30 June 2017, the carrying value of the Bank's investment securities (designated at fair value through profit and loss, available-for-sale and held-to-maturity) was UAH 73,677 million, which represented 43.7 per cent. of the Bank's total assets, compared to UAH 72,397 million, or 45.1 per cent. of the Bank's total assets, as at 31 December 2016 (UAH 51,347 million, or 36.3 per cent. of the Bank's total assets, as at 31 December 2015). The Bank's investment in securities is highly concentrated in government bonds which constituted 97.8 per cent. of investment securities or UAH 72,077 million as at 30 June 2017, compared to 97.2 per cent. of investment securities or UAH 70,366 million as at 31 December 2016 and 92.2 per cent. of investment securities or UAH 47,319 million as at 31 December 2015. The Bank's income from securities operations depends on numerous factors, some of which are beyond its control, including overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. Although the Bank has put in place limits for its securities portfolio, securities transactions, including specific limits on transactions with or by certain individual issuers, market price fluctuations, particularly affecting the Bank's Ukrainian government and corporate debt securities and Ukrainian equity securities, may adversely affect the value of the Bank's securities portfolio. See also "*Selected Statistical Data and Other Information*", "*Risk Factors - The Bank's investment portfolio is highly* *concentrated in government bonds*" and "*Risk Factors - Ukraine's economy is vulnerable to fluctuations in the global economy and is contracting*".

The Bank may experience security and privacy breaches of the systems it uses to protect personal data and such systems may also be affected by physical events.

Information security risks for large financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of organised criminals and hackers. In addition, to access the Bank's products and services, customers may use personal smartphones, personal computers and other computing devices, personal tablet computers and other mobile devices that are beyond the Bank's control systems.

The Bank's databases contain certain personal data of its customers; these databases may be vulnerable to damage, including telecommunications and network failures, natural disasters and human acts both by individuals external to the Bank's business as well as the Bank's employees. The primary and secondary data centres for the Bank, and in particular the Bank's disaster recovery centres, are located in different regions of Ukraine to minimise the risk to the Bank's operations of simultaneous damage and/or interruption caused by natural disasters, power outages or other events. Any widespread natural disaster, power outage or other event simultaneously affecting those regions of Ukraine may cause disruptions or damage to the data and/or disaster recovery centres, which may adversely affect the Bank's operations.

Whilst the Bank has not experienced any material disruptions or security breaches in the past, any material security breach or other disruptions could expose the Bank to risk of loss and regulatory actions, including fines or revocation of its banking license, and harm its reputation. The Bank's computer systems, software and networks may be vulnerable to unauthorised access, misuse, denial-of service attacks, phishing attacks (SMS phishing by which individuals or organised groups send SMS or text messages to the Bank's customers to obtain sensitive information or account credentials), computer viruses or other malicious code. The Bank and its customers have been and continue to be subject to a range of cyber-attacks and the Bank has experienced an increase in fraudulent SMS accounts. In recent years, Ukraine has suffered a number of cyber-attacks. While the Bank's systems have so far withstood such attacks, future cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber- attacks could give rise to the disablement of the Bank's information technology systems used to service the Bank's customers. As attempted attacks continue to evolve in scope and sophistication, the Bank may incur significant costs in its attempts to modify or enhance its protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach.

Information security threats may also occur as a result of the Bank's size and role in the financial services industry, its plans to continue to implement internet banking and mobile banking channel strategies and develop additional remote connectivity solutions. As financial technology continues to develop, the Bank (or its third- party suppliers) may be exposed to new risks to its business and the security of its data, including risks it may not be able to anticipate, as well as increased operating costs from ensuring that any new products and services it provides are implemented correctly and operated safely and securely.

If the Bank fails to effectively manage its IT, cybersecurity and privacy risks, it may become exposed to liability, including regulatory fines or penalties, become subject to increased expenses relating to the resolution of any security or privacy breaches of the Bank's databases and the mitigation of the impact of such breaches on affected individuals, and the Bank's reputation could be harmed. Any of the above could have a material adverse effect on the Bank's business, results of operations and/or financial condition.

The Bank's risk management and internal control policies and procedures may leave it exposed to unidentified or unanticipated risks

The Bank has devoted resources to developing its risk management policies and procedures, particularly in connection with credit, market, liquidity, interest rate and operational risks, and the Bank expects to continue to do so in the future. Nonetheless, the Bank's risk management techniques and internal control policies and procedures may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. The Bank is also subject to political, economic and other risks associated with Ukraine, which cannot be effectively managed. In addition, the Bank is vulnerable to various kinds of other risks which range from, but are not limited to, money transfers fraud, electronic fraud, identity theft, internet and telephone fraud. As the risks posed by these factors constantly change, so do the approaches and techniques used in managing such risk, which include constant monitoring and risk assessment.

Conventional risk management framework focused on credit management, operational risk management and market risk in the past. However, emerging trends in fraud indicate that failures in management of information assets and exposures in this area give rise to more emphasis being placed on information security risk management. Other risk management methods depend upon evaluation of information regarding the markets in which the Bank operates, its clients or other matters that are publicly available or otherwise accessible by the Bank. This information may not be accurate, complete, up-to-date or properly evaluated in all instances. The magnitude of the potential impact of the foregoing risks may be compounded as the Bank grows its business in the future. Any failure in the Bank's risk management may have a material adverse effect on its business, results of operations and/or financial condition.

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit and other risks to which it is subject. Certain risks are unidentified or unforeseeable, and could be greater than the Bank's empirical data would otherwise indicate. In addition, the Bank cannot guarantee that all of its staff will adhere to its risk management and internal control policies and procedures. Moreover, the Bank's growth and expansion may affect its ability to implement and maintain stringent internal controls. The Bank's risk management and internal control capabilities are also limited by the information, tools and technologies available to the Bank. Although the Bank believes that its financial systems are sufficient to ensure compliance with the requirements of applicable laws, any material deficiency in its risk management or other internal control policies or procedures may expose the Bank to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Bank's business, results of operations and/or financial condition.

Risks Relating to Ukraine

***The conflict in certain parts of the Donetsk and Luhansk regions in Eastern Ukraine has had, and may continue to have, negative humanitarian, economic and political consequences for Ukraine*.**

As reported in the United Nations Human Rights Office of the High Commission report on the "*Accountability for killings in Ukraine from January 2014 to May 2016*" published on 14 July 2016, since 2014 certain areas of the Donetsk and Luhansk regions of Ukraine have been under the control of illegal armed formations largely backed by the Russian Federation where aggression against the legitimate Ukrainian authorities takes place "fuelled by the inflow of foreign fighters and weapons from the Russian Federation".

As a result of the ongoing conflict in certain parts of the Donetsk and Luhansk regions in Eastern Ukraine, an important economic region of Ukraine has been significantly disrupted along with the industrial and social infrastructure therein.

Humanitarian consequences

The conflict in certain parts of the Donetsk and Luhansk regions in Eastern Ukraine has resulted in a large number of casualties and injuries of civilians, as well as the displacement or destitution of a significant proportion of those living in such regions.

According to the United Nations, the total death toll of the conflict in certain parts of the Donetsk and Luhansk regions and illegally occupied Crimea from 14 April 2014 to 15 November 2017 is at least 10,303 persons, with a further 24,778 persons being injured.

Large numbers of people have fled the occupied territory and sought refuge in other areas of the country ("**internally displaced persons**" or "**IDPs**")). In addition, the need to accommodate IDPs in satisfactory conditions pending return to their former homes or relocation to new homes, as well as the burden imposed on communities by the presence of large numbers of such IDPs, has led to and may in the future lead to social unrest, placing further strains on local and State authorities and consequently local and State budgets. A failure to effectively relocate and reintegrate IDPs into society, or a continued or increased flow of IDPs from the uncontrolled territories, could have a material adverse effect on Ukraine's economic growth and political stability.

Significant funds from the State Budget have been and will continue to be required in order to feed, house and relocate IDPs. A failure to effectively relocate and reintegrate IDPs into society, or a continued or increased flow of IDPs from certain parts of the Donetsk and Luhansk regions, or any social unrest resulting from the arrival of IDPs in other regions of Ukraine, or the cost of the humanitarian crisis in certain parts of the Donetsk and Luhansk regions could have a material adverse effect on Ukraine's economic growth and political stability. This could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

Increased defence costs, industrial decline and effect on the FDI

The government of Ukraine's (the "**Government**") attempts to re-establish control over certain parts of the Donetsk and Luhansk regions have resulted in a significant increase in Ukraine's defence expenditure. If the situation escalates, such expenditure will continue to strain the general and financial resources of the Government. As a result, it may have a negative effect on Ukraine's economy. Furthermore, the conflict has led to a significant loss of production in the industrial area of Ukraine, with industrial output generally declining significantly in certain areas of the Donetsk and Luhansk regions since 2014. In particular, since 2014, the industrial output in Donetsk region declined by 31.5 per cent. in 2014, 34.6 per cent. in 2015, followed by an increase of 6.4 per cent. in 2016 and a subsequent decline of 12.6 per cent. in the ten months ending 31 October 2017 (in each case, as compared to the same period in the previous year). In the Luhansk region, industrial output declined by 42 per cent. in 2014, 76 per cent. in 2015, followed by an increase of 39 per cent. in 2016 and a subsequent decline of 30 per cent. in the ten months ending 31 October 2017 (in each case, as compared to the same period in the previous year). On 15 March 2017, Ukraine imposed additional economic measures on these regions. These measures included the freezing of rail and road cargo links between certain parts of the Donetsk and Luhansk regions and the rest of Ukraine, and were imposed in reaction to the seizure of certain key steel and coal businesses in the Donbas region by Russia-backed illegal armed formations. The additional economic measures affecting these regions continue to have a negative impact on Ukraine's economic growth and industrial production, in particular in relation to the steel, nickel and general metallurgical production sectors. The events in these regions have also negatively impacted the Ukrainian GDP, principally through (i) the disruption of business in such regions, (ii) the deterioration of trade and other economic and political relations with Russia, (iii) the reduction of foreign direct investment and (iv) the disruption of the Government's privatisation programme. Along with the associated loss of tax revenue to the Government and the necessity of increased military and social welfare expenditure, the effect of the conflict in certain parts of the Donetsk and Luhansk regions has had, and continues to have, a significant detrimental effect on the Ukrainian economy and financial position as a whole. This could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

There can be no assurance that the Government will be able to identify and develop alternative sources of tax revenue and/or promote industrial production in other regions of Ukraine to offset these factors if these parts of the Donetsk and Luhansk regions remain outside the control of the Ukrainian authorities.

Political consequences

Despite numerous failed ceasefires brokered with international assistance, supported by the presence of international observers, Russia-backed illegal armed formations continue to hamper the efforts of the Government to restore peace and stability to certain parts of the Donetsk and Luhansk regions. The risk of a further intensification of aggression against Ukraine in this area remains high and the full implementation of the terms of the existing ceasefire arrangements remains challenging.

There can be no assurance that the Minsk Arrangements as well as any further attempts at a ceasefire will lead to a long-term solution to the crisis in certain parts of the Donetsk and Luhansk regions in Eastern Ukraine, which may result in a risk of a "frozen conflict" in this area, with no peace treaty or other political framework resolving the conflict to the satisfaction of Ukraine. If the conflict in certain parts of the Donetsk and Luhansk regions were to continue indefinitely, or a "frozen conflict" situation were to occur, it would have a long-term adverse military and economic effect, as well as unpredictable political consequences in Ukraine, any or all of which could have a material adverse effect on Ukraine's economy. In particular, this situation would be likely to continue to negatively affect levels of economic activity and foreign direct investment in Ukraine and increase capital flight, restrict the Government's access to the international capital markets and borrowing from multilateral organisations and put downward pressure on the hryvnia, any or all of which factors could have a material adverse effect on Ukraine's economic growth and political stability which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

The Law of Ukraine "*On Special Regime of Local Self-Government in Certain Regions of Donetsk and Luhansk Oblasts*" dated 16 September 2014 introduced a special regime of local administration for the Donetsk and Luhansk regions for a period of 3 years. On 17 March 2015, the Parliament of Ukraine amended this law to provide that this special regime would be conditional upon the successful elections of local self-government authorities in such regions. Such elections are required to be held in accordance with Ukrainian law, democratic principles and subject to certain other conditions, including, *inter alia*, the withdrawal of all illegal military groups and weaponry from Ukraine. On 6 October 2017, following the expiry of the original 3 year period for this regime, the Parliament agreed to an extension of a year which will expire on 11 October 2018. At this time it is not possible to assess political and economic consequences of taking this course of action or whether such action may in the future present a threat to Ukraine's sovereignty or territorial integrity, any or all of which could have a material adverse effect on Ukraine's economy which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

On 18 January 2018, the Parliament of Ukraine passed the law entitled, "*On the Peculiarities of State Policy on Ensuring Ukraine's State Sovereignty over Temporarily Occupied Territories in the Donetsk and Luhansk Regions*". This law further clarified the legal framework of certain districts of the Donetsk and Luhansk regions as temporarily occupied territories of the State of Ukraine and prescribed certain procedures for ensuring the national security and defence of such districts in the Donetsk and Luhansk regions. The law came into force on 24 February 2018.

The occupation and attempted annexation of Crimea and the City of Sevastopol has adversely affected and is likely to continue to adversely affect Ukraine's economic and political stability.

In 2014, following the Euromaidan Revolution, strategic military and governmental locations across Crimea and in the City of Sevastopol, including the Crimean parliament, were occupied by Russia-backed illegal armed formations. Subsequently, an illegal referendum was held in the Crimea and the City of Sevastopol in violation of Ukrainian law and norms of international law and, on the basis thereof, the purported Russian annexation of Crimea and the City of Sevastopol was announced soon after.

The Constitutional Court of Ukraine has declared the referendum in Crimea and the City of Sevastopol unconstitutional and its legitimacy and results have generally not been recognised internationally. All EU members, the United States and Canada have declared the referendum to be illegitimate and 13 members of the UN Security Council voted in favour of a resolution declaring it invalid, although the resolution was vetoed by the Russian Federation. On 27 March 2014, the UN General Assembly passed a resolution declaring the referendum invalid and affirming Ukraine's territorial integrity. On 10 April 2014, the Parliamentary Assembly of the Council of Europe also adopted a resolution condemning the violation of the territorial integrity and sovereignty of Ukraine in Crimea by the armed forces of the Russian Federation on 20 February 2014 and considering the military occupation of the Ukrainian territory and the threat of the use of military force, the recognition of the results of the illegal referendum and subsequent attempted annexation of Crimea into the Russian Federation as being in violation of international law.

Ukraine considers Crimea and the City of Sevastopol to be territories of Ukraine which are illegally occupied by the Russian Federation. The occupation of Crimea has adversely affected and may continue to adversely affect Ukraine's economic growth and political stability, including through its impact on the following:

- Ukraine's domestic trading market, as the loss of trade with Crimea and the City of Sevastopol reduces the overall volume of trade;
- Ukraine's finances, as the anticipated costs of reconstruction and resettlement, reclamation of property, as well as the loss of ongoing tax revenue from the region are significant;
- Ukraine's economy, which has lost the benefit of a large number of valuable private and state-owned assets and property (including Sevastopol Naval Base and local oil and gas assets) in the region;

- Ukraine's GDP, through the disruption caused in the region's industry and resulting loss of goods and services produced;
- Ukraine's domestic gas supply, as Ukraine currently has no access to gas production assets located in Crimea or gas stored there, as well as oil reserves onshore and in the Black Sea; and
- Ukraine's relations with Russia, as Russia's occupation of Crimea has been a source of tension between Russia and Ukraine since the crisis began, resulting in decreased trading volume between the two countries and other adverse financial and economic consequences, and further complicating their relationship (see "— *Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other Western economies, would be likely to have adverse effects on the economy as well as the political stability of the country.*")

The occupation of Crimea continues to place strain on the general resources, economy and political stability of Ukraine, in particular with respect to its relations with Russia, which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

Ukraine's Government may be unable to sustain political consensus, which may result in political instability.

Historically, a lack of political consensus in the *Verkhovna Rada*, or Parliament, has made it difficult for the Government to secure the necessary support to implement policies intended to foster liberalisation, privatisation and financial stability. Further, the country is due to see parliamentary and presidential elections in 2019. There can be no assurance that the current or newly formed Government will receive the support of a parliamentary majority coalition required to continue the reform process in Ukraine. Any failure of the Government to attract such support may lead to political instability.

This lack of support and any resultant political instability may also impact the Government's ability to enact legislation to meet the criteria necessary for the continued receipt of financial support from such multilateral organisations as the IMF, in particular the IMF requirements for further financing under the 2015 EFF. If such criteria are not met, this could result in a further suspension of international financial assistance to Ukraine. Such a suspension would be likely to materially adversely affect the financial position of the Government and make it difficult or impossible for Ukraine to meet its international financial obligations. Such circumstances are likely to have a severe negative effect on the banking sector as well as the real economy and, as a result, on the business of the Bank, its results of operations and its financial condition. See "*—Deterioration in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*" and "*—The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy*".

A number of additional factors could adversely affect the political stability in Ukraine, including:

- lack of agreement within political factions and between individual deputies;
- disputes between factions within the parliamentary majority coalition and opposition factions on major policy issues, including Ukraine's foreign, social, fiscal and energy policy, constitutional changes required to implement the Minsk Arrangements and over the issue of the timing and implementation of closer political and economic ties with the EU;
- instability within the parliamentary majority coalition, including the risk of further factions leaving the coalition;
- conduct of the anti-terrorist operation in certain parts of the Donetsk and Luhansk regions; and
- court actions taken by opposition politicians against decrees and other actions of the President and Government.

Any continued or increased political instability due to the factors listed above or for any other reason could have a material adverse effect on the Ukrainian economy which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other Western economies, would be likely to have adverse effects on the economy as well as the political stability of the country.

Ukraine's economy has traditionally been heavily dependent on trade with Russia and other Commonwealth of Independent States ("**CIS**") countries. In addition, a large share of Ukraine's services receipts comprises transit charges for oil, gas and ammonia from Russia, which are delivered to the EU via Ukraine.

Following the increased geopolitical tensions between Russia and Ukraine, exports of Ukrainian goods to Russia decreased by 50.7 per cent. in 2015 and by a further 25.6 per cent. in 2016, and the total value of goods exported from Ukraine decreased by 29.3 per cent. and 4.6 per cent. in 2015 and 2016, respectively. During the months between January 2017 and November 2017, however, the total value of goods exported from Ukraine increased by 20.6 per cent. and exports of Ukrainian goods to Russia increased by 11.6 per cent. The current tensions between Ukraine and Russia may have a long-standing impact on trade and other aspects of Ukraine's bilateral relations with Russia and could lead to the imposition of further trade and other punitive measures by both countries. These factors, in turn, could have a material adverse effect on the Ukrainian economy.

Furthermore, sanctions imposed by the Ukrainian and Russian governments against each other have significantly restricted Ukrainian companies' ability to export goods and services to Russia as well as their ability to import vital resources. For example, Russia has, recently and in the past, threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. See also "*Economic sanctions by the EU and United States against Russia over its actions in Ukraine and the resulting reciprocal sanctions by Russia against Ukraine, EU and United States are having and are likely to continue to have a material adverse effect on Ukraine's economy*" below.

Despite financial support from Ukraine's international partners, which has helped mitigate the economic impact of current events, the current strained relationship between Ukraine and Russia continues to have a material adverse effect on Ukraine's economy, and unless the situation is resolved amicably between Ukraine and Russia in the near future, is likely to continue to have an increasingly adverse effect on the Ukrainian economy, especially if Ukraine were to lose financial support from its international partners. Further strain in the economy in its turn may adversely impact the business of the Bank, its results of operations and its financial condition.

Ukraine's economy is vulnerable to fluctuations in the global economy and is contracting.

Ukraine's economy is dependent to a large extent on the fluctuations of the global economy. In particular, Ukraine relies on foreign currency revenues derived from the export of goods and raw materials to finance imports and financing in the international markets. Accordingly any material decrease in global demand or prices for Ukraine's exports, or any material increase in the cost of essential imports such as natural gas or in accessing the international finance markets, may have a significant adverse effect on Ukraine's balance of payments.

Exports form a large part of Ukraine's GDP, accounting for 52.6 per cent., 49.3 per cent. and 51.9 per. cent. of GDP in 2015, 2016 and six months ended 30 June 2017, respectively. Ukraine's ability to export goods and raw materials is dependent on global demand and prices and therefore any decrease or fluctuations in such demand or prices may have a significant adverse effect on Ukraine's economy and finances. Exports of metals and metal products form a significant part of all Ukraine's exports (24.8, 22.9 and 23.4 per cent.in 2015, 2016 and 2017, respectively) and fluctuations in global demand and prices in this sector and in particular iron ore alone could have a significant effect on Ukraine's economy. In 2017, the export of steel and metals from Ukraine increased by 21.4 per cent. (compared to a 12.0 per cent. decrease in 2016), machines and equipment by 17.6 per cent. (compared to a 7.7 per cent. decrease in 2016), chemical products by 6.6 per cent. (compared to a 26.9 per cent. decrease in 2016) and mineral products increased by 44.7 per cent. (compared to a 12.0 per cent. decrease in 2016). Total exports of goods increased by 19.0 per cent. in 2017 (compared to a 4.6 per cent. decrease in 2016), while imports increased by 26.4 per cent. (compared to a 4.6 per cent. increase in 2016).

Additionally, the global economy has an important effect on Ukraine's State Budget deficit and inflation levels as Ukraine's economy is highly dependent on global commodity prices. Domestic inflation, fluctuations in total tax revenues and budget deficit are affected by world prices for metal products and grain as well as natural gas and oil. This causal relationship has led to significant fluctuations in the budget deficit and domestic inflation over recent years and continued pressure on global energy and food prices and prices of industrial products may lead to higher deficits and/or an increase in the levels of inflation in the future, particularly if the Ukrainian government implements an expansionary monetary policy in an attempt to finance its budget deficit. Furthermore, inflation levels can directly impact Ukraine's State Budget performance as Ukraine subsidises the cost of certain basic food items, electricity and gas and any increase in the real costs of these items would be likely to increase Ukraine's State Budget expenditure and decrease its revenues.

The recent volatility in the Ukrainian economic and geopolitical situation has significantly limited Ukrainian corporate borrowers' (including key clients of the Bank) access to funding in the international capital and syndicated loan markets. The reduced availability of external financing for Ukrainian companies (including key clients of the Bank) in recent years has contributed to a decrease in industrial production (as described above), investment projects and capital expenditure generally.

Any further deterioration of the current economic and geopolitical situation may lead to a worsening of the economic and financial condition of Ukraine. Changing external or internal conditions could intensify and widen any external funding gap. Continued widening of the current account deficit or significant net capital outflows could cause the stock of international reserves to continue to fall or prompt a further devaluation of the hryvnia. Any such developments, including any prolonged unavailability of external funding and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may put pressure on the hryvnia exchange rate and may have or continue to have a material adverse effect on the economy, which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

Uncertainties relating to Ukraine's judicial system could have an adverse effect on its economy.

Since Ukraine gained independence in 1991, the Ukrainian legal system has been developing to support the country's transition from a planned to a market-based economy. Ukraine's legal system continues to be in transition and is, therefore, subject to greater risks and uncertainties than more mature legal systems. In particular, risks associated with the Ukrainian legal system include: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or which lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, amongst other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form.

The independence of the judicial system and its immunity from economic and political influence in Ukraine remains questionable. Although the Constitutional Court of Ukraine (the "**CCU**") is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself can still be considered too complicated to ensure the smooth and effective removal of discrepancies between the Constitution of Ukraine on the one hand and various laws of Ukraine on the other hand.

Recent judicial reform has deprived the CCU of its power to give official and obligatory interpretation of the laws of Ukraine (except for the Constitution of Ukraine). At the same time, access to the constitutional jurisdiction was granted to all persons who consider that the law applied in a final decision in their case contradicts the Constitution of Ukraine.

Further, enforcement of court orders and judgments can, in practice, be difficult in Ukraine. The State Enforcement Service, as a part of the Ministry of Justice of Ukraine, is responsible for the enforcement of court orders and judgments in Ukraine. As a result of the judicial reform, private bailiffs have also been operating since 5 January 2017.

Enforcement procedures are often very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient funds, the complexity of auction procedures for the sale of the defendant's property, or the defendant undergoing bankruptcy proceedings. In addition, bailiffs in Ukraine have limited authority to enforce court orders and judgments quickly and efficiently. Bailiffs are bound by the method of enforcement envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court may reverse the court order or judgment and require that the relevant funds or property be restored to the defendant.

The uncertainties described above also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights protection.
All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. Court orders are not always enforced or followed by law enforcement institutions. The uncertainties relating to the judicial system could have a negative effect on external investment in Ukraine and on the Ukrainian economy in general as well as a negative effect on Ukraine's citizens and businesses (including the Bank's customers) and, as a result, on the business of the Bank, its results of operations and its financial condition.

Economic sanctions by the EU and United States against Russia over its actions in Ukraine and the resulting reciprocal sanctions by Russia against Ukraine, EU and United States are having and are likely to continue to have a material adverse effect on Ukraine's economy.

As a result of the ongoing tension between Russia and Ukraine, the EU and the United States have each authorised and imposed sanctions, targeting parties responsible for pro-separatist activities in certain parts of the Donetsk and Luhansk regions in Eastern Ukraine, misuse of Ukrainian state funds and human rights violations in relation to the crisis in Ukraine, including asset freezes, blocking and travel sanctions on individuals and entities, sectoral sanctions, prohibitions on financing or insurance, and import and export bans, from and into the Russian Federation, respectively.

In 2014, in response to the sanctions imposed on it, Russia imposed reciprocal sanctions on the EU, United States, Canada, Australia, Norway and Ukraine banning the import of various agricultural and other food products. In particular, in the period from July to September 2014, Russia introduced restrictions on imports of Ukrainian confectionery, dairy, meat, canned vegetables and other agricultural products. From 1 January 2016, Russia introduced a food embargo on certain agricultural products, raw materials and food originating from Ukraine and cancelled the preferential trade regime envisaged by the agreement on free trade within the CIS on imports of Ukrainian goods. As of September 2017, Ukraine estimated that restrictions introduced by Russia had contributed to a 62 per cent. decline in trade with Russia and any additional sanctions imposed by Russia could further reduce the levels of trade. Because Russia has historically been the largest bilateral trading partner of Ukraine, the continued deterioration of Ukraine's trade with Russia is having and will continue to have a material adverse effect on Ukraine's export industries and economy.

It is not possible to accurately predict the future political and diplomatic consequences of the sanctions imposed by Russia or the impact of these sanctions on foreign direct investment in Ukraine and other inbound capital flows, and it is possible that further sanctions may be imposed on or by Russia. These risks and uncertainties may have a material adverse effect on Ukraine's economy and political stability which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

Deterioration in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy.

Political and financial relations

Ukraine is currently benefitting from financial support from multinational institutions such as the IMF, the World Bank, the EBRD and the EIB, as well as international partners such as the United States, Canada, Germany, Sweden, Turkey, Japan, Norway and the EU. Further external borrowings from multinational organisations and other external sources may be contingent upon Ukraine's satisfaction of certain requirements including:

- enacting and implementing strategic, institutional and structural reforms, including land, pension and judicial reforms;
- effectively managing corruption and anti-money laundering requirements;
- managing the State budget deficit in order to restore confidence in fiscal sector sustainability;
- reducing tax and budgetary arrears and indebtedness for electricity and gas; and
- improving the sovereign debt credit ratings.

Factors which may impede achievement of these requirements include:

- potential social resistance to austerity measures;
- economic recovery taking longer or proving more difficult than initially expected;
- real exchange rate shocks;
- a larger than expected fiscal burden emanating from either the banking and/or the energy sectors;
- a crisis of confidence in the banking system;
- political difficulties or delays in implementing structural reforms; and
- other external factors, including any increase or extension of the conflict in certain parts of the Donetsk and Luhansk regions.

Ukraine also benefits from significant practical and diplomatic support from the international community particularly in relation to the conflict in certain parts of the Donetsk and Luhansk regions and the illegal occupation of Crimea. This financial and political support is crucial to the economic development and political stability of Ukraine and is built on the promises of deep seated and systemic reform of the country's economic and political systems.

Any negative effects on relations with these multinational organisations and international partners as a result of internal political changes, events or failure to comply with foreign requirements would be likely to have a significant negative effect on Ukraine's economy and political stability and may lead to a suspension of financial support/aid packages which could, in turn, adversely impact the business of the Bank, its results of operations and its financial condition.

Economic and trade relations

Ukraine's trade and economic relations with the EU, its other international partners and multinational institutions is also of great importance to Ukraine given the current significant reduction in trading volumes with Russia. The perception of the Government's commitment to, and the nature of, Ukraine's legislative and regulatory reform programmes (including anti-corruption measures and measures to improve and enhance the independence of the judicial system), as well as political developments in Ukraine, could significantly impact those relations. With respect to its relations with the EU in particular, any negative change in the perceptions of Ukraine's commitment to the successful implementation of the Ukraine European Union Association Agreement signed on 21 March 2014 and on 27 June 2014 could have a material adverse effect on trade and other economic relations (including access to financial support) with the EU and its members.

Any negative change in the economic and trade relations between Ukraine, the EU and Ukraine's other international partners, may have a material adverse effect on Ukraine's economy and its ability to counterbalance the lost trade and business with Russia which, in turn, could adversely impact the business of the Bank, its results of operations and its financial condition.

Reliance on the IMF

Given Ukraine's current economic situation, its reliance upon the 2015 EFF with the IMF is critical. The further recovery and development of Ukraine's economy is dependent on further disbursements under the 2015 EFF which may be withheld if Ukraine fails to implement the necessary political, social, economic and legislative reforms required by the 2015 EFF. Furthermore, Ukraine's existing financings, as well as its ability to raise future financing, from international financial institutions and its international partners, are to a large extent dependent on the continued compliance of Ukraine with the targets set by the 2015 EFF and continued good standing with the IMF. Failure by Ukraine to maintain its membership of the IMF would result in a default under a number of such finance agreements. Accordingly, a failure to continue to meet the targets set by the 2015 EFF or to remain a member in good standing of the IMF could potentially lead to the loss of further funds critical to the economic development of Ukraine's economy and defaults under existing financings which could require early repayments either of which would be likely to have a material adverse effect on Ukraine's economy, which, in turn, could adversely impact the business of the Bank, its results of operations and its financial condition. See "*—The downgrades of Ukraine's sovereign credit rating may negative affect the economy*".

Inability to obtain financing from external sources (or obtaining them at a significant cost) could affect Ukraine's ability to meet financing expectations in its budget.

Ukraine's domestic debt market remains illiquid and underdeveloped compared with markets in most EU countries. Accordingly, Ukraine is highly reliant on external sources for financing its State Budget deficit and such reliance has been exacerbated by the fiscal pressures arising as a consequence of the occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions. As a result of the current status of the Ukrainian economy, the sovereign as well as corporate and quasi-corporate borrowers have faced difficulties in accessing the international capital markets and syndicated loan markets. Since 2014, official creditors and multinational organisations, such as the IMF, the EBRD, the World Bank and the EU, have provided much of such external financing support and Ukraine is currently largely reliant on obtaining financing on favourable conditions with these multinational organisations, notwithstanding its most recent successful sovereign bond issuance in September 2017.

If Ukraine is unable to meet the stringent criteria set out in the various support programmes provided by multilateral organisations such as the IMF, the World Bank and the EU, or if access by Ukraine and its corporate and quasi-corporate borrowers to the international capital markets or syndicated loan markets is again shut or impeded, or the costs of access increase or become prohibitive, this would put severe pressure on Ukraine's budget and foreign exchange reserves and on the financial condition of such corporate and quasi-corporate borrowers. These factors would have a material adverse effect on the Ukrainian economy and on corporates within Ukraine (including customers of the Bank) which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

Ukraine has experienced liquidity difficulties in the past and continues to be subject to a significant liquidity risk, which may be exacerbated by Ukraine's higher debt service obligations and higher cost of funding over the next several years compared to the recent past.

Following the Euromaidan Revolution in early 2014, a combination of factors occasioned by the illegal occupation of Crimea, the conflict in certain parts of the Donetsk and Luhansk regions, and the attendant sharp depreciation of the hryvnia, created a severe financial crisis for the Government. As a condition to the extension by the IMF of extraordinary financing through the 2015 EFF to help Ukraine stabilise its financial position, on 4 April 2015, the Cabinet of Ministers passed a resolution permitting the restructuring of certain State and State guaranteed debt obligations of Ukraine. Following a period of negotiations with an ad hoc committee of creditors comprised of some of the largest holders of Ukraine's outstanding Eurobonds, on 12 November 2015, the Ministry of Finance of Ukraine announced the settlement of Ukraine's debt restructuring operation in respect of thirteen series of Ukraine's Eurobonds and state-guaranteed Eurobonds.

While the debt reduction and maturity extension achieved through the debt operation alleviated the immediate liquidity pressures on the State budget, further pressures remain. The devaluation of the hryvnia since 2014 has made foreign debt service considerably more expensive for the Government, and any further depreciation of the currency will put additional pressure on Ukraine's ability to service national and international debt denominated in foreign currency. Furthermore, Ukraine is vulnerable to the effect of any potential increases in interest rates in the Eurozone and the United States, as Ukraine's reliance on external financing to fund its current account deficit and refinance existing external debt stocks means that any such increases may result in a higher cost of funding and could put further pressure on the hryvnia exchange rate.

According to the Budget Code of Ukraine (the "**Budget Code**") the volume of total State debt and State guaranteed debt at the end of the budget period (31 December of each year) should not exceed 60 per cent. of the annual GDP. Pursuant to recent amendments to the Budget Code, if the ratio of total State debt to GDP is expected to exceed 60 per cent. as of any year end, the Government is required to apply to Parliament for approval to exceed the threshold and submit a plan setting out the steps to be taken to return the ratio below the 60 per cent. threshold. While this requirement has been temporarily suspended while the conflict in certain parts of the Donetsk and Luhansk regions continues, if such events were to cease, then the Government would need to provide Parliament with a plan to reduce the level of State debt and State guaranteed Debt below 60 per cent. and this would be likely to put pressure on Ukraine's liquidity and its access to further funds in the international capital markets, thereby removing a key source of external liquidity for the Government. Ukraine's external debt service has been rising over the past several years. According to the NBU, the total outstanding State debt of Ukraine as at 30 September 2017, amounted to approximately U.S.$ 117.3 billion (including the IMF debt owed by the NBU).

In addition, it should be noted that many Ukrainian companies (including key clients of the Bank) have significant levels of indebtedness and as a result of the financial crisis have and may continue to experience difficulty accessing new financing. High levels of indebtedness of, and limited availability of new credit to, the private sector may complicate economic recovery and pose a significant risk in an already challenging economic environment.

Adverse changes in global or domestic political or economic conditions or in the international capital markets may place continued pressure on Ukraine's foreign exchange reserves which would be likely to have a material adverse effect on the Ukrainian economy, which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

A final adverse judgment in the litigation against Ukraine on behalf of Russia may have a material adverse effect on Ukraine's financial position.

As has been publicly reported, on 17 February 2016, The Law Debenture Trust Corporation plc, acting in its capacity as trustee on behalf of the holders of Ukraine's U.S.$3 billion 5 per cent. notes issued December 2013 (the "**December 2013 Notes**"), filed a lawsuit against Ukraine in the High Court of England and Wales seeking payment of principal and accrued interest due under the December 2013 Notes. Ukraine denies the validity and enforceability of the December 2013 Notes. The first instance summary judgment decision handed down on 29 March 2017 in favour of the claimant in the amount of U.S.$3 billion plus an outstanding coupon and interest thereon is being appealed by Ukraine and the hearing took place in January 2018, but a final judgment has not been rendered by the English Court of Appeal as of the date of this Offering Circular. Pending the outcome of the appeal, which may be forthcoming at any time, a stay of enforcement of the summary judgment has been granted by the High Court. If Ukraine loses its appeal (whether to the Court of Appeal or possibly a further appeal to the Supreme Court) and obtains no further stay, the summary judgment will become executable. Furthermore, unless Ukraine makes a voluntary payment of the sums due, there is a risk that Ukraine's non-immune state assets would become subject to enforcement action. Finally, any enforcement of the judgment against Ukraine may impact Ukraine's ability to service its financial obligations as well as its ability to continue to provide financial support to the Bank, if required.

The downgrades of Ukraine's sovereign credit rating may negatively affect the economy.

As Ukraine's economic performance deteriorated amid the global recession and worsening domestic conditions, the State's sovereign credit ratings were repeatedly downgraded by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), Fitch Ratings Limited ("**Fitch**")[1] and Moody's Investors Service, Inc. ("**Moody's**")[2]. In 2014, the long-term foreign currency sovereign credit rating of Ukraine fell to a low of CCC-, CCC and Caa3, respectively, driven by the political instability in Ukraine and

[1] Fitch is established in the European Union and registered under the CRA Regulation.

[2] Moody's is not established in the European Union and has not applied for registration under the CRA Regulation. However, Moody's Investors Service Ltd. (an entity which is established in the European Union and registered under the CRA Regulation) has endorsed the ratings of Moody's, in accordance with the CRA Regulation.

significantly reduced foreign currency official reserves increasing the risk that the Ukrainian Government might not be able to meet its obligations.

Following the completion of Ukraine's debt restructuring operation, the long-term foreign currency sovereign credit rating of Ukraine has positively improved. On 19 October 2015, Standard & Poor's upgraded its rating to B- (stable outlook), on 19 November 2015, Moody's upgraded its rating from Ca to Caa3 and on November 2016, Fitch upgraded its rating to B-. According to the agencies, these upgrades resulted from the completion of the restructuring of Eurobonds issued or guaranteed by the Government of Ukraine, progress in political and economic reform under the auspices of the IMF-led programme, supporting a rebalancing of the economy and a meaningful reduction in public and external financial deficits.

On 25 August 2017, Moody's further upgraded Ukraine's long-term foreign currency credit rating to Caa2 citing continuing structural reforms and improvement of Government debt dynamics and strengthening of external position of Ukraine.

Notwithstanding the recent improvement of Ukraine's sovereign credit ratings, there is no assurance that this trend will continue in the future. Any downgrades of Ukraine's sovereign credit rating will likely result in a deterioration of the condition of the banking sector through an increase in borrowing costs for Ukrainian financial institutions. Such events are likely in turn to have a material adverse effect on the business of the Bank and its results of operations and financial condition. Additionally, any negative move in sovereign ratings may affect Bank's and Notes' ratings.

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy.

The global financial crisis led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The floating of the hryvnia which commenced in February 2014 has put additional strain on the Ukrainian banking system as the high dollarisation in the Ukrainian financial system has contributed to a worsening in bank asset quality. Non-performing loans are another factor affecting the asset quality of Ukrainian banks. See "*The Ukrainian Banking Sector*". A failure by the Government and the NBU to address this situation sufficiently will put significant additional pressure on the Ukrainian banking system as a whole, including the Bank.

Other factors which have exacerbated the weak performance of the Ukrainian banking sector since 2014 include:

- significant outflows of deposits;
- the impact on the banking sector of the loss of income and branches in Crimea following the illegal occupation and attempted annexation of that territory;
- the contraction of Ukraine's GDP due to the impact of various factors, including: (i) the disruption of business in certain parts of the Donetsk and Luhansk regions, (ii) the deterioration of trade and other economic and political relations with Russia, (iii) the reduction of foreign direct investment and (iv) the disruption of the Government's privatisation programme;
- a decrease in the number of potential borrowers with a high level of creditworthiness as a result of the impact of the global financial crisis, political crisis in Ukraine and conflict in certain parts of the Donetsk and Luhansk regions;
- the increased costs of foreign debt service as a result of the devaluation of the hryvnia; and
- the effect on the sector's revenues and business of the ongoing conflict in in certain parts of the Donetsk and Luhansk regions.

Since 2014, the NBU has taken steps to promote the consolidation and strengthening of the Ukrainian banking sector, and to this end has required and/or facilitated the temporary administration, liquidation and/or restructuring of a number of Ukrainian banks. In addition, on 18 December 2016, the NBU declared PrivatBank, the largest bank in Ukraine by value of assets and an important systemic bank due to its large retail operations and prominent role operating payment systems across Ukraine, insolvent. The insolvency of PrivatBank was quickly followed by the bail-in of the bank's senior creditors and nationalisation of the bank.

Subsequent to the nationalisation of PrivatBank, the Ministry of Finance has recapitalised the bank through the injection in aggregate of over UAH 139.3 billion of fresh capital.

A further increase in the share of non-performing loans in banks' loan portfolios, or a failure to decrease this share, could place additional strain on the Ukrainian banking system, and may lead to further banks being declared insolvent and being liquidated or nationalised by the Government.

The fragile condition of the Ukrainian banking system has also been the main factor in restricting the availability of domestic credit required by domestic businesses to continue to grow their operations. Domestic banks are in many cases unwilling or unable to lend to domestic businesses in need of renewed or increased funding. Any continued shortage of credit will have a negative effect on Ukraine's GDP growth. Furthermore, increased domestic borrowing by the Government is likely to reduce the availability of domestic credit for Ukrainian businesses, exacerbating the effect on GDP levels.

In 2015, the Ukrainian Parliament adopted new legislation to strengthen and protect the banking system. Furthermore, the NBU has actively sought to promote the closure of inadequately capitalised or poorly managed banks. Despite these positive legislative developments and actions by the bank regulator, any further insolvencies of Ukrainian banks, increased liquidity constraints, continued growth in the proportion of non-performing loans and the failure to adopt and implement a system of banking regulation meeting best international standards that achieves an increased degree of stability in the nation's banks, could have a material adverse effect on the Ukrainian economy, which in turn may have a material adverse effect on the business of the Bank and its results of operations and financial condition.

The Ukrainian currency is subject to volatility and depreciation.

As a result of the high dollarisation of the Ukrainian economy and the reliance of Ukrainian borrowers on external markets, Ukraine has become increasingly exposed to the risk of the hryvnia exchange rate fluctuations. As at 31 December 2013, immediately prior to the Euromaidan Revolution, the NBU official UAH/ U.S.$ exchange rate was pegged at UAH 7.993 per 1 U.S. Dollar. In February 2014, the NBU allowed the exchange rate to float. The NBU official UAH/U.S. Dollar exchange rate was UAH 15.769, UAH 24.001, UAH 27.190, UAH 26.099, UAH 28.067 and UAH 27.007 to one U.S. Dollar, as at 31 December 2014, 31 December 2015, 31 December 2016, 30 June 2017, 31 December 2017 and 27 February 2018, respectively.

In March 2015, the NBU increased its discount rate from 19.5 per cent. to 30.0 per cent. in an attempt to stabilise the currency. Despite subsequent decreases in the discount rate to 12.5 per cent. per annum from May 2017, the discount rate in January 2018 amounted to 16 per cent. and continues to be elevated by historical standards which may lead to lower liquidity in the domestic financial markets and higher borrowing costs. The NBU has also adopted inflation targeting, but overall its ability to stabilise the currency is dependent on many factors (including political stability and a resolution of the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions) which cannot be predicted with any degree of certainty.

While a flexible exchange rate regime is expected in the medium-term to have beneficial economic effects, these positive effects may not be realised and the interim support provided to banks to mitigate the effects of exchange rate depreciation may not have the desired effect. In addition, any further depreciation of the hryvnia may adversely affect the Government's ability to service its external debt. It is possible that strained relations with Russia arising from the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions may put pressure on the hryvnia exchange rate to the extent that the population loses confidence in the local currency and seeks to acquire foreign currencies as a hedge against political and economic risk. Any failure to maintain a relatively stable exchange rate may have a material adverse effect on the Ukrainian economy in general.

Any failure to stabilise current currency fluctuations and to rebuild the value of the hryvnia to a viable level will negatively affect the Ukrainian economy in general which could in turn adversely impact the business of the Bank, its results of operations and its financial condition.

Recent currency control restrictions may negatively impact Ukrainian entities.

Ukraine has never had an entirely free capital account and transfers of foreign currency have always been subject to restrictions. Over recent years, the NBU has introduced a number of currency controls aimed at stabilising the foreign exchange market and preventing foreign currency outflow from Ukraine. These restrictions include, *inter alia*, (i) a requirement to sell in the local market, for hryvnia, a portion of any foreign currency received, (ii) restrictions on payments of dividends to foreign shareholders, (iii) restrictions on advance import payments and the purchase of foreign currency with borrowed funds, and (iv) restrictions on the early prepayment of cross-border loans.

These restrictions have made it more difficult for many Ukrainian companies (including key clients of the Bank) to conduct their business. Continued imposition of these restrictions, or the imposition of further restrictions, may affect the credit quality of Ukrainian companies and in turn adversely impact the business of the Bank, its results of operations, its financial condition and its ability to service its obligations under the Loan Agreement.

The Ukrainian tax system is under-developed and subject to frequent change, which may create an uncertain environment for investment and business activity.

The tax legislation in Ukraine and its implementing regulations are not always clearly drafted and are thus subject to inconsistent interpretation by the tax authorities and other government bodies, providing many opportunities for inappropriate and corrupt practices by officials. These factors negatively impact the predictability of Ukraine's taxation system and therefore have an adverse effect on business activity, reducing the attractiveness of the national economy for foreign investors.

The tax reform adopted by Parliament on 28 December 2014 generally improved the business climate but failed to achieve certain key goals: for example, broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy and reform of the tax authorities.

On 24 December 2015, Parliament adopted a number of changes to the tax system, including the introduction of a flat 18 per cent. personal income tax rate applicable to most types of income, a change of the basic reporting period for corporate income tax payers from a year to a quarter, the abolition of monthly advance payments of corporate income tax with certain transition rules and improvements to process for getting VAT refunds.

On 21 December 2016, Parliament adopted another set of amendments to the Tax Code effective from 1 January 2017. These amendments introduced a wide range of changes mostly related to tax administration as well as to the application of corporate income tax, VAT, personal income tax and certain other taxes.

The latest amendments to the Tax Code were introduced on 7 December 2017 and took effect from 1 January 2018. The amendments related to certain concerns including, but were not limited to, rules regulating corporate income tax (including transfer pricing and withholding tax), personal income tax, value added tax and excise tax.

Currently, the Government is considering replacing the corporate income tax with profits distribution-based corporate tax (i.e. tax that is levied on distribution of profits of the taxpayers). The introduction of the profits distribution based corporate tax may potentially result in significant losses of budget revenues.

From 1 January 2017, Ukraine has joined the Inclusive Framework for implementation of the OECD Base Erosion and Profit Shifting Action Plan ("**OECD BEPS**"). As such, Ukraine has undertaken to implement four "minimum standard" actions of OECD BEPS. It is likely to bring attention from tax authorities on areas such as transfer pricing, the economic substance of legal structures employed by taxpayers and various anti-abuse rules applicable to cross-border transactions. Potentially, the Bank might be subject to OECD Country-by-Country reporting obligations for transfer pricing purposes, which may increase its compliance burden and disclosure requirements.

Any significant changes to the Ukrainian tax system in the future, failure to implement certain changes or the ineffectiveness of any implemented measures could adversely affect Ukraine's economy. These factors also negatively impact the predictability of Ukraine's taxation system and therefore have an adverse effect on business activity, reducing the attractiveness of the national economy for foreign investors. Changes to the Ukrainian tax system may also have negative effects on the Bank's customers with a knock-on negative impact to the Bank, its results of operations and its financial condition.

The Bank believes that its interpretation of relevant tax legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable. However, if the Bank is incorrect in this belief, the Bank could be liable to pay taxes and penalties, which could adversely impact the business of the Bank, its results of operations and its financial condition.

Corruption and money laundering may have an adverse effect on the Ukrainian economy.

External analysts, as well as Ukraine's official and multilateral partners, have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation, which came into force in June 2003, the NBU and other State authorities, as well as various entities performing financial transactions, are required to monitor financial transactions for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering ("**FATF**") in February 2004 and in January 2006 FATF suspended the formal monitoring of Ukraine.

On 14 October 2014, Ukraine's Parliament adopted a number of laws aimed at the prevention of corruption. On 30 March 2017, the law "*On Amendments to Certain Laws of Ukraine Regarding the Specifics of Financial Control of Certain Categories of Officials*" entered into force. This law requires, among other things, that senior officials of the non-governmental organisations which operate in the anti-corruption sphere must submit electronic declarations regarding their property, income, expenditures and financial liabilities.

In order to enforce the above laws, the National Anti-Corruption Bureau of Ukraine (the "**Anti-Corruption Bureau**") and the National Agency on Corruption Prevention (the "**Agency on Corruption Prevention**") were established commencing activities in April 2015 and August 2016, respectively.

On 18 August 2016, the Agency on Corruption Prevention adopted a resolution launching a system of electronic declarations for property, income, expenditures and financial liabilities by state and local government officials, starting from 1 September 2016. On 30 October 2016, the first stage of submission of electronic declarations was completed, which required government officials to submit their electronic declarations for 2015. Approximately 114,037 state and local governmental officials submitted their declarations for the year 2015. On 1 April 2017, the second stage of submission of electronic declarations was completed, which required government officials to submit their electronic declarations for 2016. As at 6 February 2018, the United State Register of Declarations of Persons Authorised to Exercise the Functions of the State or the Local Self-governance contained 1,119,747 electronic declarations for 2016.

There can be no assurance that these laws will be effectively applied and implemented by the relevant anti-corruption and law enforcement authorities in Ukraine. However, failure to effectively implement the relevant anti-corruption legislation referred to above or any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on Ukraine's ability to attract foreign direct investment and external financing for the State Budget, including from international multilateral organisations, and thus may have a negative effect on the economy of Ukraine which, in turn, could adversely impact the business of the Bank, its results of operations and its financial condition.

Ukraine's physical infrastructure is in poor condition and could deteriorate further, which may have a material adverse effect on the Ukrainian economy.

Ukraine's physical infrastructure, including its power generation and transmission and telecommunication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained since independence. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The deterioration of Ukraine's physical infrastructure, which has been exacerbated by the physical destruction caused by the occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions, has had and continues to have an adverse effect on the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Ukraine and create interruptions to business operations. Failure to address the existing deficiencies in and continuing deterioration of Ukraine's infrastructure, and to effectively upgrade such infrastructure so as to enable Ukraine to achieve its economic and social goals, would be likely to have a material adverse effect on the Ukrainian economy, which, in turn, could adversely impact the business of the Bank, its results of operations and its financial condition.

Official statistics and other data published by Ukrainian State authorities may not be reliable.

Official statistics and other data published by Ukrainian State authorities (including the NBU and the State Statistics Service of Ukraine) may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on a different basis than those criteria used in more developed countries. The Bank has not independently verified such official statistics and other data, and prospective investors should be aware that any discussion of matters relating to Ukraine in this Offering Circular is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information and may not comply fully with international standards. Furthermore, standards of accuracy of statistical data may vary from agency to agency and from period to period due to application of different methodologies. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF Special Data Dissemination Standard. It is possible, however, that this IMF standard has not been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated otherwise, the macroeconomic data presented in this Offering Circular has not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful.

As a result of events since February 2014, there has been significant additional difficulty in obtaining reliable statistical information, particularly in relation to Crimea and the City of Sevastopol and certain parts of the Donetsk and Luhansk regions. From the beginning of 2014, Ukrainian GDP has been calculated without taking into account the data for Crimea and the City of Sevastopol and certain parts of the Donetsk and Luhansk regions. Therefore, certain statistics since 2014 may include unverifiable information or may not include any data at all from those areas of Ukraine; which may make a comparison of recent data to previous periods much less meaningful. Certain statistical information and other data contained in this Offering Circular have been extracted from official governmental sources in Ukraine and were not prepared or independently verified by any person in connection with the preparation of this Offering Circular. The Bank only accepts responsibility for the correct extraction and reproduction of such information. In certain circumstances, the Bank has relied on reported information in presenting such matters but is unable to independently verify such information.

Risks relating to the Loan and the Notes

The Notes may be redeemed prior to maturity.

In certain circumstances, the Bank may require or be required to prepay the Loan prior to maturity (see Clauses 7.1 (*Prepayment for Tax Reasons and Change in Circumstances*), 7.2 (*Prepayment for Illegality*) and 7.3 (*Prepayment in the event of a Change of Control*) of the Loan Agreement), and in such circumstances the outstanding Notes would be redeemed early (see Condition 5(b) (*Redemption and Purchase — Redemption by the Issuer*). Such circumstances include the Bank being required to increase the amounts payable under the Loan Agreement (by way of Additional Amounts (as defined in the Loan Agreement) or Indemnity Amounts), including as a result of the application of or any amendment to or change in the laws or regulations of Ukraine or the United Kingdom. It may not be possible to reinvest the proceeds from the redemption of the Notes at an effective interest rate as high as the interest rate on the Notes and therefore Noteholders may receive a lower return on investment than expected.

Any Notes acquired by the Bank or any of its subsidiaries may be surrendered through the Issuer to the Principal Paying Agent for cancellation, and the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation.

Future ratings of the Notes are not assured and limited in scope.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the assigning rating agency at any time. Credit ratings represent a rating agency's opinion regarding the credit quality of an asset but are not a guarantee of such quality.

There is no assurance that the rating that will be accorded to the Notes will not be lowered or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances so warrant. There can be no assurance that the ratings anticipated to be accorded to the Notes will be given by the rating agencies and, should they be so accorded, that such rating will not be lowered or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. In the event that a rating assigned to the Notes is subsequently lowered for any reason, no person or entity is required to provide any additional support or credit enhancement with respect to the Notes and the market value of the Notes is likely to be adversely affected.

Similarly, given the methodology used by rating agencies to rate entities, it is possible that a rating agency may downgrade the rating of the Bank or its securities (including the Notes) and such action may affect the price of the Notes.

The Notes may not be a suitable investment for all investors.

In addition to the risks associated with investing in emerging markets such as Ukraine, each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, currency and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes may be considered complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Issuer will pay principal and interest on the Notes in U.S. Dollars. In addition to risks associated with the conversion of amounts in hryvnia into U.S. Dollars (as described above), this also presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. Dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. Dollars would decrease the Investor's Currency-equivalent yield on the Notes, the Investor's Currency-equivalent value of the principal payable on the Notes and the Investor's Currency-equivalent market value of the Notes.

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. Although application has been made to list the Notes on the Global Exchange Market of the Irish Stock Exchange, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Trading in the clearing systems is subject to minimum denomination requirements.

The Notes will initially only be issued in global certificated form, and held through the clearing systems. Interests in the Global Note will trade in book-entry form only, and notes in definitive registered form, or Definitive Note Certificates, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depositary, or its nominee, for the clearing systems will be the sole registered holder of the Global Notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Note representing the Notes will be made to the Principal Paying Agent, who will make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for the clearing systems, none of the Bank, the Issuer, the Joint Lead Managers, the Trustee or the Agents will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, where an investor owns a book-entry interest, it must rely on the procedures of the clearing systems, and, if it is not a participant in the clearing systems, on the procedures of the participant through which its interest is held, to exercise any rights and obligations of a holder of Notes under the Conditions.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, an investor with a book-entry interest will be permitted to act only to the extent it has received appropriate proxies to do so from the relevant clearing system. The procedures implemented for the granting of such proxies may not be sufficient to enable the investor to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Conditions, unless and until Definitive Note Certificates are issued in respect of all book-entry interests, an investor with a book-entry interest will be restricted to acting through Euroclear and Clearstream, Luxembourg. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes. See "*Summary of Provisions Relating to the Notes in Global Form*".

The claims of Noteholders may be limited in the event that the Bank is liquidated by the Fund for the Guaranteeing of Deposits of Individuals.

Ukrainian bankruptcy laws differs from the bankruptcy laws of England and the United States, and are subject to varying interpretations. There is not enough precedent to be able to predict how claims of the Issuer, the Trustee or the Noteholders against the Bank would be resolved in the event of the Bank's liquidation. In the event of the Bank's liquidation (subject to a decision rendered by the NBU), its obligations to the Issuer, the Trustee or the Noteholders would be treated as unsecured and the Bank's obligations to the Issuer, the Trustee or, as the case may be, the Noteholders would be subordinated to the following obligations:

- obligations secured by pledges or mortgage of the Bank's assets;
- expenditures associated with the conduct of the liquidation proceedings;
- obligations arising as a result of inflicting harm to the life or health of individuals;
- payment of wages to the Bank's employees due as of the commencement of the liquidation procedure;
- obligations to the Fund for the guaranteeing of deposits of individuals (the "**Deposits Guarantee Fund**");
- obligations to individual depositors (including individual entrepreneurs) in an amount exceeding the sum paid by the Deposits Guarantee Fund;
- obligations to the NBU with respect to a decrease in the value of the collateral securing the refinancing loans;
- obligations to individuals (including individual entrepreneurs) with respect to blocked payments; and

- obligations to other depositors (individuals and legal entities) that are not affiliated persons of the Bank.

In the event of the Bank's bankruptcy there can be no assurance that any amounts held in accounts with the Bank (including any amounts payable to Noteholders who have exercised their put option rights but with relevant redemption amounts) would be returned to the Issuer or the Trustee, since the Bank's obligations to the Issuer and the Trustee under the Loan Agreement would be subject to mandatory Ukrainian bankruptcy proceedings and such obligations would rank *pari passu* with all other unsecured creditors of the Bank (see "*Risk Factors — Foreign judgments may not be enforceable against the Bank.*" And "*Risk Factors - Noteholders have no direct recourse to the Bank.*").

In the event of the Bank's bankruptcy, Ukrainian bankruptcy law may materially adversely affect its ability to make payments to the Issuer or the Trustee.

Claims against the Bank may be incapable of enforcement upon the introduction by the Deposit Guarantee Fund of temporary administration for the removal of the Bank from the market (following a declaration of the Bank's insolvency by the NBU).

As a temporary administrator of the Bank, the Deposits Guarantee Fund appoints an authorised representative or representatives (the "**Administrator**") that would replace all of the Bank's governing, supervisory and regulatory bodies for the entire term of the temporary administration (being a period of up to one month with a possible extension for a further month in case of assignment of the Bank's assets and liabilities to another bank (or a specially-created transition bank) or the sale of the insolvent Bank to an investor). Such Administrator would be authorised to carry out any acts aimed at the removal of the Bank from the market, including but not limited to: (i) making any decision that would have typically been made under the authority of the governing bodies of the Bank; (ii) entering into any agreements on behalf of the Bank that would be deemed necessary for the continued operational activity of the Bank; and (iii) continuing, limiting or cancelling any ongoing operation of the Bank. Moreover, during its operation, the Administrator must conduct a review of the agreements entered into by the Bank within a year preceding commencement of the temporary administration and declare void any agreement, for example, on the following grounds: (i) the Bank has failed to dispose of its property on arm's length terms; (ii) the Bank has undertaken an obligation that has resulted in its insolvency; (iii) the Bank has undertaken obligations to secure the performance of monetary claims in a manner which is prohibited by the applicable Ukrainian legislation; (iv) the Bank has entered into loan agreements which provide preferential treatment (or privileges) of certain of its clients that are not directly expressed by relevant Ukrainian legislation or internal documents of the Bank; (v) the Bank has entered into agreements providing for the payment or transfer of property for the preferences (privileges) of a lender that are not expressly provided for by relevant Ukrainian legislation or internal documents of the Bank; and (vi) the Bank has entered into agreement with an affiliated person of the Bank that would be contrary to the laws of Ukraine. Therefore, the Administrator would be entitled to claim in court for full restitution under the void agreements, meaning that the Bank would be required to repay all amounts received from the transferee and the transferee will be required to return the assets to the Bank (or, if such return is not possible, to repay to the Bank the value of assets).

If the Loan Agreement were to be declared invalid on such a basis, the Bank would be required to repay to the Issuer all funds received from the Issuer pursuant to the terms of the agreement. The Issuer would then be required to repay all funds received from the Bank. There is also a lack of certainty as to whether, in such an event, the court might apply any other restitution measure as a result of an invalidation of the Loan Agreement, which would ultimately depend on the facts of the case.

Ukrainian counsel have advised that they believe there is no basis for challenging the validity of the Loan Agreement or any transaction contemplated thereunder as contravening the requirements of Ukrainian legislation. However, in view of the risks associated with the Ukrainian legal system as disclosed under "*Risks Relating to Ukraine — Uncertainties relating to Ukraine's judicial system could have an adverse effect on its economy*", no assurance can be given that the courts in Ukraine would interpret this in the same manner.

It should be noted that during the term of operation of the temporary administration of a Ukrainian bank, none of the following will apply: (i) satisfaction of claims of depositors and other creditors of a bank; (ii) enforcement of claims at the expense of a bank's property, seizure of the bank's property or any other provisional remedies; (iii) accrual of any financial sanctions for the non-performance of a bank's payment obligations (including default interest, penalties and fines); (iv) set-off and discharge of obligations with other parties; and (v) accrual of interest on obligations of a bank before its creditors and depositors.

Applicable Ukrainian legislation prescribes the following exceptions under an established moratorium: (i) fees collected by the Deposits Guarantee Fund; (ii) payments relating to ongoing operational activities of a bank including payroll liabilities; (iii) obligations in respect of personal injuries of the bank's employees; and (iv) claims of depositors under certain agreements, if due, in an amount not exceeding a maximum amount prescribed by applicable law.

The claims of Noteholders may be limited in the event that the Issuer is declared bankrupt.

The Issuer is organised under the laws of England and Wales. Although it is impossible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or how these proceedings would be resolved, insolvency proceedings over the assets of the Issuer may be initiated in England and be governed by English law. The insolvency laws of England may not be as favourable to investors' interests as creditors as the bankruptcy laws of the United States, including in respect of priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings.

The Issuer is an orphan special purpose vehicle, incorporated under the laws of England and Wales as an English public limited company that has no revenue-generating operations or business of its own and will depend solely on cash received from the Bank in order to make payments on the Notes.

The Issuer is an orphan special purpose vehicle, incorporated under the laws of England and Wales as an English public limited company. The Issuer conducts no revenue-generating operations. The ability of the Issuer to make interest and principal payments on the Notes is therefore entirely dependent on its rights to receive such payments under the Loan Agreement. The Notes will be issued on a limited recourse basis. Under the Conditions, the Issuer will be obliged to make payments to Noteholders only to the extent of the amount of principal interest, Additional Amounts (as defined in the Loan Agreement), if any, and Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer in its capacity as lender under the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Loan Agreement). If these payments are not made by the Bank, for whatever reason, the Issuer will not have any other sources of funds available to it that would permit it to make payments on the Notes and under the Trust Deeds and, to the extent no amounts are received from the Bank, has no obligation to make any payment to Noteholders. In such circumstances, Noteholders would have to rely upon claims for payment as a result of enforcing the security under the Trust Deed, which is subject to conditions on enforcement as well as the risks and limitations thereon.

Risks relating to the interpretation of the transaction documents in Ukraine.

Whilst the transaction documents are governed by English law (and the parties to the Loan Agreement have agreed to refer and settle any claim thereunder in accordance with the LCIA Arbitration Rules), there can be no assurance as to the approach that Ukrainian courts or regulators may adopt to the structures and concepts reflected in the transaction documents, which may adversely affect the ability of investors to recover their investments in the Notes. In addition, certain English law concepts like "representation", "warranty" and "indemnity" have no distinctive legal meaning under Ukrainian law and there is therefore a risk of difficulty in interpretation of the Loan Agreement, should a Ukrainian court have to interpret or implement their provisions. Similarly, an arbitration tribunal or an English court may find it difficult to interpret Ukrainian laws and regulations to the extent applicable to the Loan Agreement. See "*Risk Factors — Uncertainties relating to Ukraine's judicial system could have an adverse effect on its economy*".

Foreign judgments may not be enforceable against the Bank.

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such recognition and/or enforcement is envisaged by an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United Kingdom.

In the absence of such treaty, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Under Article 462 of the Civil Procedure Code, unless proven otherwise the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. The Civil Procedure Code does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or established court practice of these provisions of the Civil Procedure Code. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of England on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the Civil Procedure Code. Since Ukraine is a party to the New York Convention, an arbitration award obtained in a state which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Ukraine, subject to the terms of the New York Convention. See "*Enforceability of Judgments*".

In addition, by virtue of being wholly owned by the State and in common with other state-owned enterprises, the Bank's fixed assets in Ukraine are immune from execution pursuant to a temporary moratorium imposed in 2001. By virtue of the moratorium, enforcement against the fixed assets of the Bank arising in connection with, *inter alia*, court judgments and arbitration awards or bankruptcy proceedings is currently prohibited. As a result, a creditor of the Bank may not be able to enforce a judgment against the Bank's fixed assets.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's own and the Bank's competitors' operating results, adverse business developments, changes in the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for securities issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Bank's results of operations, prospects or financial condition.

Financial turmoil in emerging markets could cause the price of the Notes to suffer.

The market price of the Notes will be influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS, Eastern European countries and emerging markets generally. If the Ukrainian economy experiences any renewed decline as a result of the armed conflict currently taking place in the country or any neighbouring countries experience financial turmoil, this could materially adversely affect the market price of the Notes.

Modification, waivers and substitution.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Trust Deed or, pursuant to the Transferred Rights or the Loan Agreement or (ii) determine without the consent of the Noteholders that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement or constitute a Relevant Event shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the Issuer, all as more fully described in Condition 12 (*Meetings of Noteholders; Modification and Waiver; Substitution*).

Any negative change in Ukraine's or the Bank's own credit rating could adversely affect the market price of the Notes.

The Bank has received credit ratings from Fitch CIS and from Moody's as set out in "*Overview of the Bank—Credit Ratings*". The Bank's credit ratings at any time may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Any negative change in the Bank's credit ratings or the credit ratings of Ukraine (as set out in "*Risk Factors - The downgrades of Ukraine's sovereign credit rating may negatively affect the economy*") could materially adversely affect the market price of the Notes.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Noteholders' rights to receive payment on the Notes will be limited to payments received from the Issuer under the Loan Agreement.

The Issuer is obliged to make payments under the Notes to Noteholders only to the extent of the amount of principal, interest as provided in Condition 4(b) (*Calculation of Interest*)), Additional Amounts and Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer under the Loan Agreement less any amount in respect of the Reserved Rights. Consequently, if the Bank fails to fully meet its obligations as Borrower under the Loan Agreement, Noteholders may, on the relevant due date, receive less than the scheduled amount of principal, interest and/or additional amounts (if any) due and payable under the Notes.

The amount of interest and principal payments on the Notes in U.S. Dollars will depend on the exchange rate between hryvnia and the U.S. Dollar at the time of the relevant payment.

The Notes and the obligations of the Issuer under the Notes are denominated in hryvnia and investors will therefore assume the foreign exchange risk in connection with payments in U.S. Dollars on the Notes. As the Notes will be settled in U.S. Dollars, and the interest and principal payments to be made on the Notes are determined by reference to the hryvnia-U.S. Dollar exchange rate as determined by the NBU, investors will bear all of the risk that the hryvnia may depreciate. If the hryvnia were to depreciate over the life of the Notes, the interest and principal payments investors receive in U.S. Dollars under the Notes would decrease accordingly. If the hryvnia were to depreciate against the U.S. Dollar, the U.S. Dollar principal amount payable by the Issuer on the maturity date or upon any redemption of the Notes could be significantly less than the initial U.S. Dollar amount investors have invested, and investors could lose a significant portion of their initial U.S. Dollar investment in the Notes. See "*Risk Factors — The Ukrainian currency is subject to volatility and depreciation*".

Risks relating to the determination of Exchange Rate.

In relation to the settlement of payments under the Notes in U.S. Dollars, the "**Exchange Rate**" shall be (i) the official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua) at or about 09.00 a.m. Kyiv time on the applicable Exchange Rate Determination Date (as defined in the Loan Agreement), or (ii) if it is not possible to determine a rate pursuant to (i) above, the rate calculated pursuant to the Survey Method (as defined in the Loan Agreement), or (iii) if it is not possible to determine a rate pursuant to (i) or (ii) above, the most recent official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua). Accordingly, investors face the risk that a historic exchange rate may be used. This may result in a disadvantageous USD/UAH exchange rate being used with respect to the relevant amounts.

Notwithstanding the obligations of the Bank to make payment of amounts payable under the Loan, in U.S. Dollars, if the Exchange Rate cannot be determined in accordance with limbs (i) or (ii) of the definition of Exchange Rate, then the Bank may make payment of amounts payable in respect of the Loan in hryvnia provided that (i) the UAH Loans Resolution is amended, replaced or re-enacted so that the requirement in the UAH Loans Resolution existing on the date hereof that payments under loan agreements to which the UAH Loans Resolution applies should be made only in foreign currency is revoked; (ii) the Bank is permitted under Ukrainian law to make such payments in hryvnia to the Issuer and the Issuer is able to accept a payment in hryvnia; and (iii) the Bank and the Issuer provide notification in writing to the Trustee, the Agents and the

Noteholders that it will make such payments not later than 10 business days prior to the date of such payments. Upon request by the Bank, the Issuer shall take reasonable steps to set up an account denominated in hryvnia (which may be an account in the name of the Issuer with the Bank), to facilitate such payment. Promptly upon opening any such account denominated in hryvnia, the Issuer shall grant security over such account to the Trustee for and on behalf of the Noteholders. The Issuer shall be under no obligation to convert hryvnia amounts received by it into U.S. Dollars. In such circumstances, Noteholders may need to receive payments under the Notes in hryvnia. As at the date of this Offering Circular, it is not permissible to make payments in hryvnia outside Ukraine. Further, the Issuer does not hold an account which is capable of receiving hryvnia and is not under any obligation to open such an account. As such, there can be no certainty that the Issuer will be able to receive any such hryvnia amount from the Bank. Notwithstanding these issues, if it becomes permissible for the Issuer to receive hryvnia amounts from the Bank and the Issuer is able to receive such hryvnia payments and the Issuer makes payments to Noteholders in hryvnia, such Noteholders may have to make additional arrangements, at their own cost, in order to receive such payments. These may be subject to tax, banking and other laws, regulations and procedures, and the process may be, amongst other things, complicated, time-consuming and/or administratively onerous. Furthermore, there can be no assurance that in this case the Noteholders will be able to open accounts with Ukrainian banks to receive hryvnia payments under the Notes or subsequently repatriate the relevant hryvnia amounts from such accounts.

Currency control regulations may restrict conversion of UAH amounts to U.S. Dollar amounts and vice versa and payments under Loan Agreement.

The NBU is empowered to define policies for, and regulate, currency and foreign exchange operations in Ukraine, as well as to establish restrictions on currency operations, foreign exchange trading, cross-border payments and repatriation of profits denominated in foreign or local currency. Ukrainian regulations and practice on currency control and foreign exchange operations are subject to continual changes with the NBU exercising considerable autonomy in their interpretation and application.

The Conditions provides that the Issuer will settle payments of principal and interest under the Notes in U.S. Dollars, except in certain limited circumstances set out in the Conditions. Such settlement is subject to the currency control and foreign exchange related regulations of Ukraine and there is no guarantee that the currency control regime or regulation of foreign exchange operations will not change during the term of the Notes. Such changes may cause delays to, or prevent, the conversion of hryvnia into U.S. Dollars as well as the ability to transfer U.S. Dollars out of Ukraine, which may in turn adversely affect the ability of the Bank to perform its obligations under the Loan Agreement and/or the ability of the Issuer to pay Noteholders in U.S. Dollars.

Further, the Ukrainian government and NBU may impose exchange controls that could adversely affect an applicable exchange rate. Currently no such controls are in place but there can be no assurance that the Ukrainian government or the NBU will not implement such controls or other restrictions in relation to the exchange of foreign currency in the future. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The rule under the Tax Code of Ukraine exempting interest payments on the Loan from Ukrainian withholding tax has been introduced recently and its application remains untested.

Under Ukrainian tax legislation, interest income received by non-resident entities from Ukrainian sources is generally subject to withholding tax in Ukraine at 15 per cent. of the gross amount of such interest.

On 21 December 2016, the Parliament of Ukraine introduced new provisions relating to taxation of interest payments on the loans being a part of a loan participation notes structures. In particular, under Paragraph 47 of Sub-section 4 Section XX "*Transitionary Provisions*" of the Tax Code of Ukraine, a cross-border loan borrowed in the period between 1 January 2017 and 31 December 2018 has the benefit of an exemption from withholding tax (throughout the life of such loan) on payments of interest made by a resident of Ukraine to a non-resident of Ukraine, provided that: (i) the loan was financed through the issue by the lender of foreign debt securities at a foreign stock exchange included in the list of qualifying stock exchanges approved by the Cabinet of Ministers of Ukraine; (ii) the relevant proceeds were raised for the purpose of making the loan (directly or indirectly) to a resident of Ukraine; and (iii) a non-resident recipient of interest and/or its authorised person (provided interest is paid through such a person) is not resident in a jurisdiction other than a

Qualifying Jurisdiction (namely a jurisdiction that, as at the Closing Date, is not included in the list of "low-tax" jurisdictions approved by the Resolution of the Cabinet of Ministers of Ukraine No. 1045 dated 27 December 2017) (the "**WHT Exemption Rule**").

Taking into account that (i) the Notes are debt securities admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange, which is included in the list of foreign stock exchanges approved by the Cabinet of Ministers of Ukraine; (ii) the balance of the U.S. Dollar proceeds of the Notes will be used by the Issuer for the purpose of financing the Loan; and (iii) as of the date of the issue of the Notes the Issuer is a tax resident of the United Kingdom which is a Qualifying Jurisdiction, the Bank believes that, based on the WHT Exemption Rule, payments of interest under the Loan will not be subject to withholding taxation in Ukraine.

The practical application of tax laws by Ukrainian tax authorities is often inconsistent and overly formalistic. Due to the recent origin of the WHT Exemption Rule, there is some degree of uncertainty as to the approaches the Ukrainian tax authorities may take in its application to particular transactions, including the Loan and the Notes (including as to the particular documentation that the Bank may be required to provide to confirm compliance with the WHT Exemption Rule criteria). At the same time, the risk of the Ukrainian tax authorities adversely interpreting the WHT Exemption Rule and rejecting its application to interest payments on the Loan appears to be remote.

Should the hryvnia appreciate, the excess of the U.S. Dollar equivalent of the principal amount of the Loan at the time of repayment over the U.S. Dollar equivalent of the principal amount of the Loan at the time of extension may be subject to withholding on account of Ukrainian tax.

The principal amount of the Loan is denominated in hryvnia, while the settlement of payments thereunder are made in U.S. Dollars by reference to the USD/UAH exchange rate determined by the NBU. If the hryvnia appreciates against U.S. Dollar, the U.S. Dollar equivalent of the principal amount of the Loan (or any part thereof) required to be repaid or prepaid by the Bank to the Lender will be higher than the U.S. Dollar equivalent of the principal amount of the Loan (or the respective part thereof) received by the Bank on the Closing Date (such excess hereinafter the "**USD Positive Difference**"). The Bank believes that the amount of such USD Positive Difference may constitute Ukraine-sourced income for the purposes of Ukrainian taxation. Under currently applicable Ukrainian tax laws, if the amount of the USD Positive Difference is considered to be Ukrainian-sourced income, then it may not have the benefit of the WHT Exemption Rule or an exemption under an applicable double tax treaty. As a result, the Bank may be required to withhold Ukrainian tax on the amount of the USD Positive Difference at the time of repayment of the principal amount of the loan (currently, at the rate of 15 per cent.).

Pursuant to the Loan Agreement, the Bank will not be required to pay Additional Amounts (as defined in the Loan Agreement) in respect of withholding made on account of any such taxation of the USD Positive Difference.

As a result, if the hryvnia appreciates against the U.S. Dollar, then the U.S. Dollar equivalent of the principal amount of the Loan received by the Lender under the Loan Agreement (and, as a result, the U.S. Dollar equivalent of the principal amount of the Notes received by the Noteholders) may be less than the full U.S. Dollar equivalent calculated by reference to the relevant USD/UAH exchange rate

Noteholders have no direct recourse to the Bank.

No Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Bank, except through action by the Trustee to enforce the Security Interests (as defined in the Conditions). Additionally, any action by the Trustee to enforce the Security Interests may be restricted. See "*Risk Factors — Foreign judgments may not be enforceable against the Bank.*" and "*Risk Factors — Risks relating to enforcement of the Transferred Rights*". Following the assignment of the Reserved Rights, the Trustee will not be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or prefunded and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith. Neither the Issuer nor the Trustee accepts any responsibility for the performance by the Bank of its obligations under the Loan Agreement. See Condition 1 (*Form, Denomination and Status*).

Risks relating to enforcement of the Transferred Rights.

Neither the Issuer nor the Trustee (pursuant to the assignment of the Transferred Rights (as defined in the Conditions) shall be required to enter into proceedings to enforce payment under Loan Agreement, unless it has been indemnified and/or prefunded and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

The Bank may be unable to repay the Loan (or any part thereof) or other amounts when due.

On the maturity date of the Loan or upon a prepayment event, a Change of Control Offer (as defined in the Conditions), the Bank may not have the funds to fulfil its obligations under the Loan Agreement and it may not be able to arrange for additional financing. If the maturity date of the Loan, any prepayment event or a Change of Control Offer occurs at a time when other arrangements prohibit the Bank from repaying the Loan (or any part thereof), the Bank may, among other things, attempt to obtain waivers of such prohibitions from the lenders under those other arrangements, or it could attempt to refinance the borrowings that contain the restrictions. If the Bank cannot obtain the waivers or refinance these borrowings it may be unable to repay the Loan (or relevant part thereof), and other amounts payable under the Loan Agreement which would result in an Event of Default (as defined in the Loan Agreement).

If the Trustee were to enforce the security under the Trust Deed, payments under the Loan Agreement could lose the benefit of the WHT Exemption Rule (as defined in the Loan Agreement) and could become subject to Ukrainian withholding tax.

If the Trustee were to enforce the security under the Trust Deed, following a Relevant Event, the Trustee will be entitled to payments of principal and interest under the Loan Agreement. It is unclear whether in such circumstances, payments under the Loan Agreement in favour of the Trustee will continue to have the benefit of the WHT Exemption Rule (as defined in the Loan Agreement). Therefore, such payments may become subject to Ukrainian withholding tax. If this were to occur, the Bank would not be obliged to pay Additional Amounts (as defined in the Loan Agreement) on account of Ukrainian withholding tax withheld and the Trustee (on behalf of Noteholders) would only be entitled to receive payments net of such Ukrainian withholding tax. The Bank would also become entitled in such event to prepay the Loan at its principal amount, together with accrued interest as set forth in the Loan Agreement.

If the Issuer becomes a resident in a jurisdiction other than a Qualifying Jurisdiction (as defined in the Loan Agreement) for purposes of the Loan Agreement, or the WHT Exemption Rule is otherwise rendered inapplicable, payments of interest under the Loan Agreement would be subject to Ukrainian withholding tax.

If the Issuer or any successor or assignee of the Issuer becomes a resident of a jurisdiction other than a Qualifying Jurisdiction, or if the Issuer or any successor or assignee of the Issuer takes any action that would render the WHT Exemption Rule inapplicable, then payments of interest under the Loan Agreement would be subject to Ukrainian withholding tax at the rate of 15 per cent. If this were to occur, the Bank would be obliged to pay Additional Amounts (as defined in the Loan Agreement) on account of Ukrainian taxes withheld and would become entitled to prepay the Loan at its principal amount, together with accrued interest as set forth in the Loan Agreement. In the event of such a prepayment (subject to receipt of sufficient funds from the Bank) the Issuer would prepay all outstanding Notes. It may not be possible to reinvest the proceeds from the redemption of the Notes at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Consequences of Ukrainian withholding tax on payments under the Loan Agreement

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding tax in Ukraine (as a result of which the Issuer would reduce payments under the Notes), the Bank may, in certain circumstances specified in the Loan Agreement, become obliged to pay such Additional Amounts (as defined in the Loan Agreement) as may be necessary so that the net payments received by the Issuer or the

Trustee will not be less than the amount the Issuer or the Trustee would have received in the absence of such withholding.

Ukrainian tax law contains restrictions that, if construed broadly, may affect the validity and enforceability of the gross up provisions in the Loan Agreement. Notwithstanding this, a failure by the Bank to pay Additional Amounts (as defined in the Loan Agreement) due under the Loan Agreement would constitute a default under the Loan Agreement. Also, in the event that the Bank becomes obliged to pay Additional Amounts (as defined in the Loan Agreement) as a result of a change in relevant law (including a change in the interpretation thereof), the Bank would become entitled to prepay the Loan at its principal amount, together with accrued interest, and in the event of such a prepayment (subject to receipt of the relevant funds from the Bank) all outstanding Notes would be prepaid by the Issuer. It may not be possible to reinvest the proceeds from the redemption of the Notes at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

UK tax treatment of the Issuer

The Issuer has been advised that it should fall within the permanent regime for the taxation of securitisation companies (as introduced by the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (the "**Securitisation Tax Regulations**")), and, as such, should be taxed only on the amount of its "retained profit" (as that term is defined in the Securitisation Tax Regulations), for so long as it satisfies the conditions of the Securitisation Tax Regulations. However, if the Issuer does not satisfy the conditions of the Securitisation Tax Regulations (or subsequently ceases to satisfy those conditions), then the Issuer may be subject to tax liabilities not contemplated in the cash flows for the transaction described in this Offering Circular. Any such tax liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest and/or principal than expected.

EU Financial Transaction Tax

On 14 February 2013, the European Commission issued proposals (the "**Commission's Proposal**"), including a Council Directive ("**Directive**"), for a financial transaction tax ("**FTT**"). The current intention is for the FTT to be adopted via an enhanced cooperation procedure in certain participating EU member states (Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia. However, Estonia has since stated that it will not participate).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate, although certain EU Member States have expressed strong objections to the proposal. Moreover, once the draft Directive has been adopted (the "**Final FTT Directive**"), it will need to be implemented into the respective domestic laws of the participating Member States and the domestic provisions implementing the Final FTT Directive might deviate from the Final FTT Directive itself.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUMMARY FINANCIAL INFORMATION AND FINANCIAL RATIOS

The summary financial information and financial ratios for the Bank set forth below should be read in conjunction with, and are qualified in their entirety by reference to the Financial Statements included elsewhere in this Offering Circular.

The summary financial information set forth below as at and for the years ended 31 December 2015 and 2016 has been extracted from the Audited Financial Statements, which are included elsewhere in this Offering Circular. The summary information below for the six month periods ended 30 June 2017 have been extracted from the Interim Six Month Financial Statements also included elsewhere in this Offering Circular. In the opinion of the management of the Bank, these Financial Statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the periods covered thereby.

The Ukrainian hryvnia has been selected as the functional currency for the Financial Statements.

	Year ended 31 December			**Six months ended 30 June**	
	2015	**2016**	**2016**	**2017**	**2017**
	(UAH thousands) (audited)	*(UAH thousands) (audited)*	*(U.S.$ thousands)[(1)] (unaudited)*	*(UAH thousands) (unaudited)*	*(U.S.$ thousands)[(1)] (unaudited)*
INCOME STATEMENT DATA					
Net interest income	2,393,171	3,234,041	118,939	1,500,001	57,474
Allowance for loan impairment charge	(10,326,225)	(5,700,145)	(209,635)	(1,086,555)	(41,632)
Net interest margin after loan impairment	**(7,933,054)**	**(2,466,104)**	**(90,696)**	**413,446**	**15,842**
Commission income	1,102,590	1,003,648	36,911	448,374	17,180
Commission expense	(392,045)	(352,117)	(12,950)	(157,567)	(6,037)
Net gains/ (losses) from investment securities designated at fair value through profit and loss	3,886,182	5,314,500	195,452	(575,240)	(22,041)
Net losses from available-for-sale investment securities	(2,922,719)	-	-	(46,858)	(1,795)
Net gains/(losses) from foreign currencies and precious metals	(5,949,889)	(2,967,860)	(109,149)	1,363,839	52,256
Other income	105,603	114,937	4,227	93,962	3,600
Profit/(loss) before non-interest expenses	**(12,103,332)**	**647,004**	**23,795**	**1,539,956**	**59,005**
Loss on initial recognition of financial assets	(18,633)	(7,350)	(270)	(116)	(4)
Personnel expenses	(864,949)	(765,616)	(28,157)	(398,446)	(15,267)
Depreciation and amortisation	(105,939)	(102,751)	(3,779)	(50,229)	(1,925)
Other operating expenses	(965,679)	(841,156)	(30,935)	(306,347)	(11,738)
(Charge to) / reversal of other impairment and provisions	(11,961)	(122,487)	(4,505)	2,736	105
Profit/(loss) before tax	**(14,070,493)**	**(1,192,356)**	**(43,851)**	**787,554**	**30,176**
Income tax (expense)/credit	6,721	215,050	7,909	(57,331)	(2,197)
Profit/(loss) for the period	**(14,063,772)**	**(977,306)**	**(35,942)**	**730,223**	**27,979**

Note:

(1) Convenience translation. See "*Presentation of Financial Information – Currency*".

	As at 31 December			As at 30 June	
	2015	2016	2016	2017	2017
	(UAH thousands) (audited)	*(UAH thousands) (audited)*	*(U.S.$ thousands)*[1] *(unaudited)*	*(UAH thousands) (unaudited)*	*(U.S.$ thousands)*[1] *(unaudited)*
STATEMENT OF FINANCIAL POSITION DATA					
Assets					
Cash and cash equivalents	24,241,179	21,378,517	786,239	30,283,049	1,160,315
Amounts due from credit institutions	4,083,743	1,544,476	56,801	1,079,741	41,371
Loans to customers	55,099,903	58,469,531	2,150,338	56,846,712	2,178,119
Investment securities	51,347,092	72,396,757	2,662,541	73,676,585	2,822,966
Tax assets	293,122	101,677	3,740	43,601	1,671
Investment property	1,566,942	1,344,074	49,431	1,331,518	51,018
Property and equipment	2,170,944	2,120,672	77,992	1,994,602	76,424
Intangible assets	17,584	26,778	985	34,947	1,339
Deferred income tax assets	1,730,750	2,322,000	85,396	2,322,000	88,969
Other assets	797,253	697,747	25,661	795,364	30,475
Total assets	**141,348,512**	**160,402,229**	**5,899,124**	**168,408,119**	**6,452,667**
Liabilities					
Amounts due to the NBU	2,979,775	659	24	-	-
Amounts due to credit institutions	19,298,870	27,930,729	1,027,210	24,733,778	947,691
Amounts due to customers	79,317,943	85,788,952	3,155,066	89,898,226	3,444,509
Eurobonds issued	33,122,294	37,562,345	1,381,433	36,063,943	1,381,814
Subordinated debt	9,375,369	3,495,895	128,569	3,358,483	128,682
Provisions for other losses	22,213	5,137	189	4,074	156
Other liabilities	292,387	258,246	9,498	255,848	9,803
Total liabilities	**144,408,851**	**155,041,963**	**5,701,989**	**154,314,352**	**5,912,655**
Equity					
Share capital	21,689,042	31,008,041	1,140,385	38,730,042	1,483,967
Revaluation reserve	664,823	725,335	26,676	362,308	13,882
Result from transactions with the shareholder	-	-	-	635,104	24,334
Accumulated deficit	(25,577,130)	(26,536,036)	(975,918)	(25,796,613)	(9,884,14)
Reserve and other funds	162,926	162,926	5,992	162,926	6,243
Total equity	**(3,060,339)**	**5,360,266**	**197,135**	**14,093,767**	**540,012**
Total liabilities and equity	**141,348,512**	**160,402,229**	**5,899,124**	**168,408,119**	**6,452,667**

Note:

(1) Convenience translation. See "*Presentation of Financial Information – Currency*".

	As at and for the year ended 31 December		As at and for the six months ended 30 June
	2015	2016	2017
	(%)	*(%)*	*(%)*
FINANCIAL RATIOS			
Bank Performance Ratios			
Net interest margin[1]	1.9	2.3	1.9
Net interest spread[2]	2.1	2.6	1.8
Net non-interest income to income before operating expenses[3]	42.1	28.3	28.7
Cost to income ratio[4]	36.7	34.4	35.9
Return on average assets[5]	(10.6)	(0.6)	0.9
Return on average equity[6]	(330.3)	(85.0)	15.0
Balance Sheet Ratios[7]			
Customer loans to customer deposits[8]	69.5	68.2	63.2
Liquid assets to total assets[9]	50.6	57.2	60.8
Customer loans to total assets	39.0	36.5	33.8
Equity to total assets	(2.2)	3.3	8.4
Tier 1 capital adequacy ratio	(4.1)	5.8	17.9
Total capital adequacy ratio	(4.1)	9.6	23.7
Asset Quality Ratios[7]			
Individually impaired and past due but not impaired loans (gross)[10] to total loans (gross)	62.5	63.0	63.4
Allowance for loan impairment of loan portfolio to total customer loans (gross)	42.6	43.8	44.6
Allowance for loan impairment as a percentage of individually impaired and past due but not impaired loans	68.1	69.5	70.4
Allowance charge to total customer loans (gross)[11]	10.8	5.5	2.1

Notes:

(1) Net interest margin was calculated as net interest income before allowance for loan impairment divided by the simple average of interest earning assets (i.e., loans to customers, investment securities, amounts due from credit institutions (including current accounts, overnight deposits, time deposits with credit institutions up to 90 days and reverse repurchase agreements with contractual maturity up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) and amounts due from the NBU (including current accounts with the NBU and deposit certificates of the NBU up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) as at the beginning and the end of the year or period. The ratio was annualised, if necessary.

(2) Net interest spread was calculated as interest income divided by the simple average of interest earning assets (i.e., loans to customers, investment securities, amounts due from credit institutions (including current accounts, overnight deposits, time deposits with credit institutions up to 90 days and reverse repurchase agreements with contractual maturity up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) and amounts due from the NBU (including current accounts with the NBU and deposit certificates of the NBU up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) less interest expense divided by the simple average of interest bearing liabilities (i.e., amounts due to customers, Eurobonds issued, amounts due to the NBU, amounts due to credit institutions, subordinated debt) as at the beginning and the end of the year or period. The ratio was annualised if necessary.

(3) Net non-interest income to income before operating expenses was calculated as net non-interest income (i.e., net commission income and non-interest income less net gains from change in fair value of investment securities designated at fair value through profit and loss, losses on impairment from available-for-sale investment securities, net losses from translation differences from foreign currencies and net gains/losses from revaluation of precious metals) divided by income before operating expenses before allowance for impairment (i.e., net non-interest income as defined above plus net interest income before allowance for impairment).

(4) Cost to income ratio was calculated as non-interest expense (less revaluation of investment property, charges/reversal to other impairment and provisions, loss from changes in terms of loans to customers) divided by income before operating expenses before allowance (as defined above).

(5) Return on average assets was calculated as net profit/(loss) for the period divided by the simple average of total assets at the beginning and at the end of the year or period. The ratio was annualised if necessary.

(6) Return on average equity was calculated as net profit/(loss) for the period divided by the simple average of total equity at the beginning and at the end of the year or period. The ratio was annualised if necessary.

(7) At the respective year end or period end.

(8) The ratio of customer loans to customer deposits includes related accrued but not paid interest income/expense.

(9) The ratio was calculated by dividing liquid assets (including cash and cash equivalents and Ukrainian state bonds) by total assets.

(10) Individually impaired and past due but not impaired loans before deducting any allowance for impairment.

(11) Allowance charge to total customer loans was calculated as the allowance charge for impairment of loans to customers for the period divided by gross customer loans at the end of the year or period. The ratio was annualised if necessary.

USE OF PROCEEDS

The U.S. Dollar proceeds of the Notes will amount to U.S.$ 150,000,314.74 and will be used by the Issuer for the purpose of financing the Loan denominated in hryvnia. The Bank will separately pay commissions and fees in connection with the offering of U.S.$ 450,000.94, and certain other fees and expenses, as may be agreed with the Joint Lead Managers, the Issuer, the Trustee, the Agents and others in connection with the offering of the Notes. As a result, the net proceeds of the Loan available to the Bank, after payment of such commissions and fees, but before payment of certain other fees and expenses incurred in connection with the offering, will be U.S.$ 149,550,313.80. The Bank intends to use the net proceeds of the Loan primarily for general corporate purposes.

EXCHANGE RATES

The following table sets forth, for the periods indicated, the average and period-end official rates set by the NBU, in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hryvnia per U.S. Dollar.

	High	Low	Average	Period end
	(Ukrainian hryvnia per U. S. Dollar)			
2012	7.993	7.984	7.991	7.993
2013	7.993	7.993	7.993	7.993
2014	15.854	7.993	11.887	15.769
2015	30.010	15.750	21.845	24.001
2016	27.249	23.267	25.551	27.191
2017	28.067	25.440	26.597	28.067
January 2018	28.876	27.891	28.434	28.009

The Bank has translated certain financial data from hryvnia into U.S. Dollars at the rates of UAH 15.7686, UAH 24.001, UAH 27.190, UAH 26.099 and UAH 28.067 to US$1.000, the official rates set by the NBU on 31 December 2014, 31 December 2015, 31 December 2016, 30 June 2017 and 31 December 2017, respectively. These translations should not be construed as representations that Ukrainian hryvnia amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of any at the dates mentioned in this Offering Circular or at all. The NBU's hryvnia/dollar exchange rate reported on 27 February 2018 was UAH 27.007 to the U.S. Dollar.

FINANCIAL REVIEW

Summary Financial Information and Financial Ratios

The summary financial information and financial ratios for the Bank set forth below should be read in conjunction with, and are qualified in their entirety by reference to the Financial Statements set out herein or incorporated by reference in this Offering Circular.

The summary financial information set forth below as at and for the years ended 31 December 2015 and 2016 has been extracted from the Audited Financial Statements, which are set out herein, except for U.S. Dollar amounts which have been translated from hryvnia amounts in the Audited Financial Statements solely for the convenience of the reader at the exchange rates established by the NBU and effective as at the dates of the respective financial information. The summary financial information below as at and for the six months ended 30 June 2017 have been extracted from Interim Six Month Financial Statements also set out herein, except for U.S. Dollar amounts which have been translated from hryvnia amounts in the Interim Six Month Financial Statements solely for the convenience of the reader at the exchange rates established by the NBU and effective as at the dates of the respective financial information.

The Ukrainian hryvnia is the functional currency for the Financial Statements.

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2016	2017	2017
	(UAH thousands) (audited)	*(UAH thousands) (audited)*	*(U.S.$ thousands)[(1)] (unaudited)*	*(UAH thousands) (unaudited)*	*(U.S.$ thousands)[(1)] (unaudited)*
INCOME STATEMENT DATA					
Net interest income	2,393,171	3,234,041	118,939	1,500,001	57,474
Allowance for loan impairment charge	(10,326,225)	(5,700,145)	(209,635)	(1,086,555)	(41,632)
Net interest margin after loan impairment	**(7,933,054)**	**(2,466,104)**	**(90,696)**	**413,446**	**15,842**
Commission income	1,102,590	1,003,648	36,911	448,374	17,180
Commission expense	(392,045)	(352,117)	(12,950)	(157,567)	(6,037)
Net gains/ (losses) from investment securities designated at fair value through profit and loss	3,886,182	5,314,500	195,452	(575,240)	(22,041)
Net losses from available-for-sale investment securities	(2,922,719)	-	-	(46,858)	(1,795)
Net gains/(losses) from foreign currencies and precious metals	(5,949,889)	(2,967,860)	(109,149)	1,363,839	52,256
Other income	105,603	114,937	4,227	93,962	3,600
Profit/(loss) before non-interest expenses	**(12,103,332)**	**647,004**	**23,795**	**1,539,956**	**59,005**
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Personnel expenses	(864,949)	(765,616)	(28,157)	(398,446)	(15,267)
Depreciation and amortisation	(105,939)	(102,751)	(3,779)	(50,229)	(1,925)
Other operating expenses	(965,679)	(841,156)	(30,935)	(306,347)	(11,738)
(Charge to) / reversal of other impairment and provisions	(11,961)	(122,487)	(4,505)	2,736	105
Profit/(loss) before tax	**(14,070,493)**	**(1,192,356)**	**(43,851)**	**787,554**	**30,176**
Income tax (expense)/credit	6,721	215,050	7,909	(57,331)	(2,197)
Profit/(loss) for the period	**(14,063,772)**	**(977,306)**	**(35,942)**	**730,223**	**27,979**

Note:

(1) Convenience translation. See "*Presentation of Financial Information – Currency*".

	As at 31 December			As at 30 June	
	2015	2016	2016	2017	2017
	(UAH thousands) (audited)	*(UAH thousands) (audited)*	*(U.S.$ thousands)*[(1)] *(unaudited)*	*(UAH thousands) (unaudited)*	*(U.S.$ thousands)*[(1)] *(unaudited)*
STATEMENT OF FINANCIAL POSITION DATA					
Assets					
Cash and cash equivalents	24,241,179	21,378,517	786,239	30,283,049	1,160,315
Amounts due from credit institutions	4,083,743	1,544,476	56,801	1,079,741	41,371
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Investment securities	51,347,092	72,396,757	2,662,541	73,676,585	2,822,966
Tax assets	293,122	101,677	3,740	43,601	1,671
Investment property	1,566,942	1,344,074	49,431	1,331,518	51,018
Property and equipment	2,170,944	2,120,672	77,992	1,994,602	76,424
Intangible assets	17,584	26,778	985	34,947	1,339
Deferred income tax assets	1,730,750	2,322,000	85,396	2,322,000	88,969
Other assets	797,253	697,747	25,661	795,364	30,475
Total assets	**141,348,512**	**160,402,229**	**5,899,124**	**168,408,119**	**6,452,667**
Liabilities					
Amounts due to the NBU	2,979,775	659	24	-	-
Amounts due to credit institutions	19,298,870	27,930,729	1,027,210	24,733,778	947,691
Amounts due to customers	79,317,943	85,788,952	3,155,066	89,898,226	3,444,509
Eurobonds issued	33,122,294	37,562,345	1,381,433	36,063,943	1,381,814
Subordinated debt	9,375,369	3,495,895	128,569	3,358,483	128,682
Provisions for other losses	22,213	5,137	189	4,074	156
Other liabilities	292,387	258,246	9,498	255,848	9,803
Total liabilities	**144,408,851**	**155,041,963**	**5,701,989**	**154,314,352**	**5,912,655**
Equity					
Share capital	21,689,042	31,008,041	1,140,385	38,730,042	1,483,967
Revaluation reserve	664,823	725,335	26,676	362,308	13,882
Result from transactions with the shareholder	-	-	-	635,104	24,334
Accumulated deficit	(25,577,130)	(26,536,036)	(975,918)	(25,796,613)	(9,884,14)
Reserve and other funds	162,926	162,926	5,992	162,926	6,243
Total equity	**(3,060,339)**	**5,360,266**	**197,135**	**14,093,767**	**540,012**
Total liabilities and equity	**141,348,512**	**160,402,229**	**5,899,124**	**168,408,119**	**6,452,667**

Note:
(1) Convenience translation. See "*Presentation of Financial Information – Currency*".

	As at and for the year ended 31 December		As at and for the six months ended 30 June
	2015	2016	2017
	(%)	*(%)*	*(%)*
FINANCIAL RATIOS			
Bank Performance Ratios			
Net interest margin[(1)]	1.9	2.3	1.9
Net interest spread[(2)]	2.1	2.6	1.8
Net non-interest income to income before operating expenses[(3)]	42.1	28.3	28.7
Cost to income ratio[(4)]	36.7	34.4	35.9
Return on average assets[(5)]	(10.6)	(0.6)	0.9
Return on average equity[(6)]	(330.3)	(85.0)	15.0
Balance Sheet Ratios[(7)]			
Customer loans to customer deposits[(8)]	69.5	68.2	63.2
Liquid assets to total assets[(9)]	50.6	57.2	60.8
Customer loans to total assets	39.0	36.5	33.8
Equity to total assets	(2.2)	3.3	8.4
Tier 1 capital adequacy ratio	(4.1)	5.8	17.9
Total capital adequacy ratio	(4.1)	9.6	23.7
Asset Quality Ratios[(7)]			
Individually impaired and past due but not impaired loans (gross)[(10)] to total loans (gross)	62.5	63.0	63.4
Allowance for loan impairment of loan portfolio to total customer loans (gross)	42.6	43.8	44.6
Allowance for loan impairment as a percentage of individually impaired and past due but not impaired loans	68.1	69.5	70.4
Allowance charge to total customer loans (gross)[(11)]	10.8	5.5	2.1

Notes:
(1) Net interest margin was calculated as net interest income before allowance for loan impairment divided by the simple average of interest earning assets (i.e., loans to customers, investment securities, amounts due from credit institutions (including current accounts, overnight deposits, time deposits with credit institutions up to 90 days and reverse repurchase agreements with contractual maturity up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) and amounts due from the NBU (including current accounts with the NBU and deposit certificates of the NBU up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) as at the beginning and the end of the year or period. The ratio was annualised, if necessary.

(2) Net interest spread was calculated as interest income divided by the simple average of interest earning assets (i.e., loans to customers, investment securities, amounts due from credit institutions (including current accounts, overnight deposits, time deposits with credit institutions up to 90 days and reverse repurchase agreements with contractual maturity up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) and amounts due from the NBU (including current accounts with the NBU and deposit certificates of the NBU up to 90 days which were disclosed in cash and cash equivalents in the Financial Statements) less interest expense divided by the simple average of interest bearing liabilities (i.e., amounts due to customers, Eurobonds issued, amounts due to the NBU, amounts due to credit institutions, subordinated debt) as at the beginning and the end of the year or period. The ratio was annualised if necessary.

(3) Net non-interest income to income before operating expenses was calculated as net non-interest income (i.e., net commission income and non-interest income less net gains from change in fair value of investment securities designated at fair value through profit and loss, losses on impairment from available-for-sale investment securities, net losses from translation differences from foreign currencies and net gains/losses from revaluation of precious metals) divided by income before operating expenses before allowance for impairment (i.e., net non-interest income as defined above plus net interest income before allowance for impairment).

(4) Cost to income ratio was calculated as non-interest expense (less revaluation of investment property, charges/reversal to other impairment and provisions, loss from changes in terms of loans to customers) divided by income before operating expenses before allowance (as defined above).

(5) Return on average assets was calculated as net profit/(loss) for the period divided by the simple average of total assets at the beginning and at the end of the year or period. The ratio was annualised if necessary.

(6) Return on average equity was calculated as net profit/(loss) for the period divided by the simple average of total equity at the beginning and at the end of the year or period. The ratio was annualised if necessary.

(7) At the respective year end or period end.

(8) The ratio of customer loans to customer deposits includes related accrued but not paid interest income/expense.

(9) The ratio was calculated by dividing liquid assets (including cash and cash equivalents and Ukrainian state bonds) by total assets.

(10) Individually impaired and past due but not impaired loans before deducting any allowance for impairment.

(11) Allowance charge to total customer loans was calculated as the allowance charge for impairment of loans to customers for the period divided by gross customer loans at the end of the year or period. The ratio was annualised if necessary.

The following discussion of the Bank's financial condition and results of operations should be read in conjunction with the information contained in "*Selected Statistical Data and Other Information*" and the Financial Statements which appear elsewhere in this Offering Circular.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Offering Circular, particularly under the headings "*Risk Factors*" and "*Forward-Looking Statements*".

Results of Operations for the years ended 31 December 2015 and 2016

The following table sets forth the principal components of the Bank's results of operations for the periods indicated.

	Year ended 31 December	
	2015	**2016**
	(UAH thousands) *(audited)*	
Interest income	13,211,410	13,680,411
Interest expenses	(10,818,239)	(10,446,370)
Net interest income	**2,393,171**	**3,234,041**
Allowance for loan impairment charge	(10,326,225)	(5,700,145)
Net interest income/(margin) after allowance for loan impairment charge	**(7,933,054)**	**(2,466,104)**
Fee and commission income	1,102,590	1,003,648
Fee and commission expense	(392,045)	(352,117)
Net fee and commission income	**710,545**	**651,531**
Non-interest income/(expenses)	**(4,880,823)**	**2,461,577**
Personnel expenses	(864,949)	(765,616)
Depreciation and amortisation	(105,939)	(102,751)
Other operating expenses	(965,679)	(841,156)
Loss on initial recognition of financial assets	(18,633)	(7,350)
Other impairment and provisions	(11,961)	(122,487)
Non-interest expense	**(1,967,161)**	**(1,839,360)**
Loss before income tax expense	**(14,070,493)**	**(1,192,356)**
Income tax credit	6,721	215,050
Loss for the year	**(14,063,772)**	**(977,306)**

Interest income

The following table sets forth details of the Bank's interest income for the periods indicated.

	Year ended 31 December				Variation
	2015	Percentage of total	2016	Percentage of total	2015/2016
	(UAH thousands) (audited)	*(%) (unaudited)*	*(UAH thousands) (audited)*	*(%) (unaudited)*	*(%) (unaudited)*
Loans to customers	7,333,783	55.5	8,107,630	59.3	10.6
Due from credit institutions	642,360	4.9	273,248	2.0	(57.5)
Investment securities	4,987,958	37.8	4,900,531	35.8	(1.8)
Amounts due from the National bank of Ukraine	247,309	1.9	399,002	2.9	61.3
Total interest income	**13,211,410**	**100.0**	**13,680,411**	**100.0**	**3.5**

Interest income for the year ended 31 December 2016 grew by 3.5 per cent. to UAH 13,680 million from UAH 13,211 million in the year ended 31 December 2015. Most notably the year-on-year growth was due to an increase of loans to customers income by 10.6 per cent. from UAH 7,334 million for the year ended 31 December 2015 to UAH 8,108 million for the year ended 31 December 2016 as a result of the impact of devaluation of the hryvnia and an increase in income from amounts due from the NBU, which grew by 61.3 per cent. from UAH 247 million as at 31 December 2015 to UAH 399 million as at 31 December 2016 (primarily from interest income received from certificates of deposits of the NBU). The total average portfolio of interest-earning assets for the year ended 31 December 2016 increased by 14.7 per cent. to UAH 143,116 million from UAH 124,794 million for the year ended 31 December 2015 mainly due to a growth of 24.4 per cent. in the Bank's investment securities portfolio (predominantly comprising of Ukrainian state bonds, including those received by the Bank as a result of capital injections by the State).

Interest expense

The following table sets forth details of the Bank's interest expense for the periods indicated.

	Year ended 31 December				Variation
	2015	Percentage of total	2016	Percentage of total	2015/2016
	(UAH thousands) (audited)	*(%) (unaudited)*	*(UAH thousands) (audited)*	*(%) (unaudited)*	*(%) (unaudited)*
Amounts due to customers	(5,218,921)	48.2	(5,195,463)	49.7	(0.4)
Eurobonds issued	(2,795,722)	25.8	(3,399,655)	32.5	21.6
Amounts due to credit institutions	(1,013,118)	9.4	(887,024)	8.5	(12.4)
Subordinated debt	(885,991)	8.2	(761,388)	7.3	(14.1)
Amounts due to the NBU	(904,487)	8.4	(202,840)	1.9	(77.6)
Total interest expense	**(10,818,239)**	**100.0**	**(10,446,370)**	**100.0**	**(3.4)**

Interest expense decreased by 3.4 per cent. in the year ended 31 December 2016 to UAH 10,446 million from UAH 10,818 million in the same period in 2015. This was mainly due to the early repayment of the NBU loan with a carrying value of UAH 2,978 million (as at 31 December 2015) in July 2016. Interest expense relating to amounts due to customers decreased by 0.4 per cent. in the year ended 31 December 2016 to UAH 5,195 million from UAH 5,219 million in the year ended 31 December 2015, which represents the greatest proportion of the Bank's interest expense. Concurrently, interest expenses related to Eurobonds issued increased by 21.6 per cent., from UAH 2,796 million in the year ended 31 December 2015 to UAH 3,400 million in the year ended 31 December 2016; largely the result of the impact of the depreciation of the hryvnia as well as increased coupon payments to bondholders following the reprofiling of the Bank's Eurobonds during 2015.

Further, in the year ended 31 December 2016, the Bank fully repaid the sums owed to the NBU, which resulted in a decrease in interest expense on amounts due to the NBU from UAH 904 million in the year ended 31 December 2015 to UAH 203 million in the year ended 31 December 2016.

Allowance for loan impairment charge

Allowance for loan impairment charge constituted UAH 5,700 million for the year ended 31 December 2016 compared to UAH 10,326 million for the year ended 31 December 2015 reflecting the slowing but continuing worsening of the quality of the loan book as a result of the economic crisis in Ukraine.

Net interest income, net interest margin and net interest spread

Net interest income increased by 35.1 per cent. for the year ended 31 December 2016 to UAH 3,234 million from UAH 2,393 million in the same period in 2015. This increase was primarily related to the growth of interest income to UAH 13,680 million as at 31 December 2016 from UAH 13,211 million as at 31 December 2015, while interest expenses decreased to UAH 10,446 million as at 31 December 2016 from UAH 10,818 million as at 31 December 2015 which was primarily the result of the cumulative impact of increasing interest income from loans to customers and investment securities and a reduction in cost of clients' funds due to the Bank's early repayment of the loan due to the NBU and its conversion of existing subordinated debt from the EBRD into a U.S.$ 200 million senior loan. In May 2009, the Bank received a U.S.$ 250,000 thousand subordinated loan from the EBRD. The loan was scheduled to mature in May 2019. On 29 July 2016 the EBRD and the Bank completed a conversion of this subordinated debt into a loan of U.S.$ 200 million, with early redemption of the remaining part of this debt in amount of U.S.$ 50 million.

The structure of interest earning assets in the year ended 31 December 2016 moved towards lower risk assets, with the share of loans to customers in total average interest-earning assets decreasing to 39.7 per cent. as at 31 December 2016 from 42.1 per cent. as at 31 December 2015, whilst the share of investment securities in total average interest-earning assets grew to 43.2 per cent. as at 31 December 2016 from 39.9 per cent. as at 31 December 2015, such assets primarily made up of Government bonds received by the Bank as a result of capital injections by the State and the share of amounts due from other banks decreased to 10.9 per cent. as at 31 December 2016 from 13.8 per cent. as at 31 December 2015.

The year-on-year increase in interest income was primarily attributable to the increase in volumes of average interest-earning assets which grew by 14.7 per cent. in the year ended 31 December 2016 to UAH 143,116 million from UAH 124,794 million in the same period in 2015; primarily the result of the impact of devaluation of the hryvnia and capital injections by the State.

The Bank's net interest margin (net interest income as a percentage of total average interest-earning assets) was 2.3 per cent. in the year ended 31 December 2016 compared to 1.9 per cent. in 2015. Net interest spread (the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities) was 2.6 per cent. in the year ended 31 December 2016 as compared to 2.1 per cent. in 2015.

Fees and commission income

The following table sets out the principal components of the Bank's fees and commission income for the years ended 31 December 2015 and 2016.

	Year ended 31 December	
	2015	**2016**
	(UAH thousands)	
	(audited)	*(audited)*
Cash and settlement services[(1)]	547,741	599,419
Guarantees and letters of credit[(2)]	417,850	251,669
Operations with banks[(3)]	98,239	115,363
Credit servicing commission[(4)]	13,028	12,329
Other[(5)]	25,732	24,868
Total	**1,102,590**	**1,003,648**

Notes:

(1) Cash and settlement service include fees and commissions from cash and settlement servicing of customers.

(2) Guarantees and letters of credit operations include commission income received from commitments with customers (including letters of credit, guarantees, available on promissory notes, collections and other sources).

(3) Operations with banks include fees and commissions received from cash and settlement servicing of banks, commissions charged for lending services of banks, income on commitments with banks and other fees and commissions.

(4) Credit servicing commission includes fees and commission received from different services to borrowers.

(5) Other fee and commission income principally includes commissions received from safe deposit boxes services, commissions charged for the Government agent functions and other fees and commissions received from customers.

Fee and commission income decreased by 9.0 per cent. in the year ended 31 December 2016 to UAH 1,004 million from UAH 1,103 million in same period of 2015. The principal reason for the comparative decrease in fees and commission income was due to a decrease in volumes of guarantees and letters of credit commission income earned by the Bank in year ended 31 December 2016, which was primarily the result of certain large customers of the Bank reducing operations requiring guarantees.

Fees and commission expense

The following table sets out the principal components of the Bank's fees and commission expense for the years ended 31 December 2015 and 2016.

	Year ended 31 December	
	2015	**2016**
	(UAH thousands)	
	(audited)	*(audited)*
Cash and settlement operations	(189,825)	(254,699)
Guarantees and letters of credit	(195,103)	(88,938)
Currency conversion	(3,835)	(3,013)
Other	(3,282)	(5,467)
Total	**(392,045)**	**(352,117)**

Fee and commission expense decreased by 10.2 per cent. in the year ended 31 December 2016 to UAH 352 million from UAH 392 million in the year ended 31 December 2015, which is primarily attributable to an overall decrease in the volume of guarantees and letters of credit provided by the Bank.

Net fees and commissions

As a result of the foregoing information on the Bank's fees and commission, its net fees and commission income decreased by 8.3 per cent. to UAH 652 million in the year ended 31 December 2016 from UAH 711 million in 2015.

Non-interest income

The following table sets out the components of the Bank's non-interest income for the years ended 31 December 2015 and 2016.

	Year ended 31 December	
	2015	**2016**
	(UAH thousands)	
	(audited)	*(audited)*
Net gains from investment securities designated at fair value through profit and loss:	3,886,182	5,314,500
Net gains/(losses) from available-for-sale investment securities:		
Dealing	32,871	-
Losses on impairment	(2,955,590)	-
Net gains/(losses) from foreign currencies:		
Dealing	878,047	507,924
Translation differences	(6,823,654)	(3,472,421)
Net gains/(losses) from precious metals:		
Dealing	9,592	490
Revaluation	(13,874)	(3,853)
Other income.	105,603	**114,937**
Non-interest income/(loss)	**(4,880,823)**	**2,461,577**

Non-interest income in the year ended 31 December 2016 amounted to UAH 2,462 million, compared to non-interest loss of UAH 4,881 million for the year ended 31 December 2015. The year-on-year increase in non-interest income was primarily driven by the revaluation of investment securities designated at fair value through profit and loss and a smaller translation difference as a result of a slowdown in the pace of depreciation of the hryvnia in 2016 as compared with 2015.

The revaluation losses derived from the Bank's open foreign exchange position were caused by a devaluation of Ukraine's currency in the year ended 31 December 2016, which was largely offset by gains from the Bank's investments in securities designated at fair value through profit and loss.

The Bank's dealings with foreign currencies saw a decrease to UAH 508 million in the year ended 31 December 2016 from UAH 878 million in the same period of 2015, which was primarily driven by the decreased volatility of the hryvnia and a decreasing trading margin when compared with 2015.

Revaluation of the Bank's open position in precious metals, which predominantly comprises of exposure to gold, made a loss of UAH 4 million to the Bank's non-interest income for the year ended 31 December 2016, compared to a loss of UAH 14.0 million in the year ended 31 December 2015.

Personnel expenses

Personnel expenses decreased in the year ended 31 December 2016 to UAH 766 million from UAH 865 million in the same period of 2015, as a result of a reduction of the Bank's staff. This reduction in staff was the result of the Bank's strategy to downsize and consolidate certain of its operations in response to the economic crisis in Ukraine.

Depreciation and amortisation

Depreciation and amortisation decreased by 3.0 per cent. in the year ended 31 December 2016 to UAH 103 million from UAH 106 million in the year ended 31 December 2015. The decrease was primarily attributable to a reduction in the depreciation of the Bank's computers and equipment, furniture and other assets.

Other operating expenses

Other operating expenses decreased by 12.9 per cent. in the year ended 31 December 2016 to UAH 841 million from UAH 966 million in the year ended 31 December 2015. This decrease mainly reflects losses arising from fair value adjustments to the Bank's investment property (such property obtained as a result of collateral enforcement) which is periodically revalued by the Bank's internal specialists based on then actual market prices.

Other impairment and provisions

The Bank increased other impairment and provisions expenses in the year ended 31 December 2016 to UAH 123 million from UAH 12 million in 2015, due to created provisions for certain clients' fees receivables.

Loss before income tax expense

Loss before income tax expense decreased in the year ended 31 December 2016 to UAH 1,192 million from UAH 14,070 million in the year ended 31 December 2015, which mainly reflects a substantial decrease in the overall allowance for loan impairment charges for the year 2016, due to the decreasing pace of loan book deterioration as a result of the stabilising of the Ukrainian economy and the slower pace of devaluation of the hryvnia in 2016 as compared with 2015.

Income tax credit

Commencing from 2015 tax year, the taxable amount is assessed on the basis of financial results prepared in accordance with IFRS and adjusted for certain items. As at 31 December 2016, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at a rate of 18 per cent.

Loss for the year

Loss for the year ended 31 December 2016 decreased to UAH 977 million compared to UAH 14,064 million for the year ended 31 December 2015.

Financial Condition as at 31 December 2016 and 2015

Total Assets

The following table presents data regarding the Bank's assets as at the dates indicated.

	As at 31 December			
	2015	% of total	2016	% of total
Assets:	*(UAH thousands)* *(audited)*	*(%)* *(unaudited)*	*(UAH thousands)* *(audited)*	*(%)* *(unaudited)*
Cash and cash equivalents	24,241,179	17.1	21,378,517	13.3
Amounts due from credit institutions	4,083,743	2.9	1,544,476	1.0
Loans to customers	55,099,903	39	58,469,531	36.5
Investment securities	51,347,092	36.3	72,396,757	45.1
Tax asset	293,122	0.2	101,677	0.1
Investment property	1,566,942	1.1	1,344,074	0.8
Property and equipment	2,170,944	1.5	2,120,672	1.3
Intangible assets	17,584	0.0	26,778	0.0
Deferred income tax assets	1,730,750	1.2	2,322,000	1.4
Other assets	797,253	0.6	697,747	0.4
Total assets	**141,348,512**	**100.0**	**160,402,229**	**100.0**

As at 31 December 2016, the Bank had total assets of UAH 160,402 million, which represents an increase of 13.5 per cent. from UAH 141,349 million as at 31 December 2015. The increase in total assets is primarily attributable to a UAH 9,319 million capital injection by the Government and the effect of the devaluation of the hryvnia. See also "*Capital*" below.

Assets by operating segments

The table below shows assets as at 31 December 2015 and 2016 specified by operating segment.

	As at 31 December	
	2015	2016
	(UAH thousands) *(audited)*	*(audited)*
Corporate banking	56,142,419	58,936,051
Interbank and investment activities	78,222,914	93,890,451
Retail banking	4,746,994	4,897,657
Unallocated[(1)]	2,236,185	2,678,070
Total assets	**141,348,512**	**160,402,229**

Notes:

(1) Unallocated amounts include income tax receivables and payables and the share of assets and costs associated with the work of the Bank's TOP management (i.e., personnel performing general management functions at the level of the whole of the Bank's system and staff that directly support the work of TOP management).

Interbank and investment activities represent the largest share of the Bank's assets at 58.5 per cent. of total assets as at 31 December 2016. The primary component of the interbank and investments segment are transactions in the securities markets (mainly relating to transactions with Ukrainian sovereign bonds) which amounted to UAH 72,240 million as at 31 December 2016 (or 76.9 per cent. of the interbank and investment activities of the Bank) and 45.0 per cent. of the Bank's total assets.

The Bank's second largest segment by assets is the corporate banking segment with 36.7 per cent. of the Bank's total assets as at 31 December 2016. The corporate banking business primarily consists of loans to corporate customers, with the corporate banking credit portfolio comprising 95.9 per cent. of the Bank's corporate banking assets.

The Bank's retail banking segment represented 3.4 per cent. of the Bank's total assets as at 31 December 2016. Loans to retail customers (namely individuals and small and medium enterprises) amounted to UAH 1,969 million, which represented 40.2 per cent. of the Bank's assets in the retail banking segment as at 31 December 2016. Other assets of the retail banking segment include cash on hand and cash in ATMs, ATMs and transaction terminals as well as property in the Bank's branches. The primary purpose of the retail business is to attract deposits and render commission-bearing retail services.

Cash and cash equivalents

The following table sets out details of the Bank's cash and cash equivalents as at 31 December 2015 and 2016 as indicated below:

	As at 31 December				Variation
	2015	**Percentage of total**	**2016**	**Percentage of total**	**2015/2016**
	(UAH thousands) (audited)	*(%) (unaudited)*	*(UAH thousands) (audited)*	*(%) (unaudited)*	*(%) (unaudited)*
Current accounts with other credit institutions	9,593,295	39.6	8,884,608	41.6	(7.4)
Current account with the NBU	2,184,195	9.0	5,372,785	25.1	146
Deposits certificates of the National Bank of Ukraine up to 90 days	6,255,946	25.8	4,006,865	18.7	(36)
Overnight deposits with other credit institutions	4,265,831	17.6	1,894,306	8.9	(55.6)
Cash on hand	1,109,948	4.6	1,219,953	5.7	9.9
Time deposits with credit institutions up to 90 days	831,964	3.4	-	-	-
Total cash and cash equivalents	**24,241,179**	**100.0**	**21,378,517**	**100.0**	**(11.8)**

As at 31 December 2016, cash and cash equivalents placed on current accounts with five Organisation for Economic Co-operation and Development ("**OECD**") banks amounted to UAH 7,794 million compared to UAH 8,863 million placed on current accounts with five OECD banks as at 31 December 2015. These credit institutions are the main counterparties of the Bank in performing international settlements. Such cash and cash equivalents have been placed subject to normal banking terms and conditions.

As at 31 December 2016, the Bank's overnight deposits with other credit institutions amounted to UAH 1,894 million (placed with one OECD bank and subject to market interest rate) compared to UAH 4,266 million as at 31 December 2015, the reduction due to the Bank placing excess liquidity in other assets generating higher interest income.

Ukrainian banks are required to maintain mandatory reserves on a correspondent account with the NBU. From January 2015, mandatory reserves that should be kept at the beginning of each operational day on a correspondent account with the NBU should total no less than 40 per cent. of the reserve base (representing the average arithmetic sum of funds calculated for the period of determination in accordance with the mandatory reserve requirements for that period) that is calculated for the relevant period of allowance.

For the years ended 31 December 2016 and 2015, the Bank met all of the NBU's mandatory reserve requirements.

As at 31 December 2016, cash and cash equivalents totalled UAH 21,379 million, which represented a decrease of 11.8 per cent. from UAH 24,241 million as at 31 December 2015. The decrease in cash and cash equivalents was primarily driven by the decrease of overnight deposits and current accounts with other credit institutions as the Bank placed excess liquidity in other assets generating higher interest income. At the same time, current accounts with the NBU increased by 146.0 per cent. from UAH 2,184 million for the year ended 31 December 2015 to UAH 5,373 million for the year ended 31 December 2016 due to a tightening of the NBU mandatory reserves calculations.

Amounts due from credit institutions

The following table sets out details of amounts due from credit institutions as at 31 December 2015 and 2016.

	As at 31 December				Variation
	2015	**% of total**	**2016**	**% of total**	**2015/2016**
	(UAH thousands) (audited)	*(%) (unaudited)*	*(UAH thousands) (audited)*	*(%) (unaudited)*	*(%) (unaudited)*
Loans and deposits	4,525,511	110.8	2,268,771	146.9	(49.9)
Current accounts with other credit institutions in precious metals	106,968	2.6	121,567	7.9	13.6
Other amounts due from credit institutions	10	0.0	3	0.0	(70)
Less allowance for impairment	(548,746)	(13.4)	(845,865)	(54.8)	54.1
Amounts due from credit institutions	**4,083,743**	**100.0**	**1,544,476**	**100.0**	**(62.2)**

As at 31 December 2016, amounts due from credit institutions totalled UAH 1,545 million, a decrease of 62.2 per cent. from UAH 4,084 million as at 31 December 2015. The decrease was primarily attributable to a decrease in the interbank loans and deposits to UAH 2,269 million as at 31 December 2016 from UAH 4,526 million as at 31 December 2015 as the Bank placed excess liquidity in other assets generating higher interest income.

Current accounts with other credit institutions in precious metals increased to UAH 122 million as at 31 December 2016 from UAH 107 million as at 31 December 2015 as a result of the increase in official rates for precious metals.

Loans to customers

Net loans to customers during the year ended 31 December 2016 increased by 6.1 per cent. to UAH 58,470 million as at 31 December 2016 from UAH 55,100 million as at 31 December 2015. The following table sets out details of the Bank's loans to customers as at the dates indicated.

	2015	2016	Variation
	(UAH thousands)	*(UAH thousands)*	*(%)*
Commercial loans	95,509,668	103,403,198	8.3
Overdrafts	273,354	456,206	66.9
Promissory notes	21,545	66,270	207.6
Financial lease receivables	143,547	94,664	(34.1)
	95,948,114	104,020,338	8.4
Less – Allowance for impairment	(40,848,211)	(45,550,807)	11.5
Total loans	**55,099,903**	**58,469,531**	**6.1**

Gross loans to customers increased by 8.4 per cent. to UAH 104,020 million as at 31 December 2016 from UAH 95,948 million as at 31 December 2015, but the increase was partially offset by allowance for loan impairment which increased by 11.5 per cent. to UAH 45,551 million as at 31 December 2016 from UAH 40,848 million as at 31 December 2015. The increase of gross loans to customers was primarily due to the impact of the devaluation of the hryvnia.

For a description of the Bank's loan impairment and the geographical concentration of its financial assets and liabilities, see "*Selected Statistical Data and Other Information — Loan Portfolio*".

Investment securities

The following table sets out details of the Bank's investment securities designated at fair value through profit or loss as at 31 December 2015 and 2016.

	As at 31 December	
	2015	2016
	(UAH thousands)	
	(audited)	*(audited)*
Ukrainian state bonds	9,924,610	24,064,110
Investment securities designated at fair value through profit or loss	**9,924,610**	**24,064,110**

The following table sets out details of the Bank's investment securities available-for-sale as at 31 December 2015 and 2016.

	As at 31 December	
	2015	2016
	(UAH thousands)	
	(audited)	*(audited)*
Ukrainian state bonds	37,163,276	46,163,120
Corporate bonds	2,388,565	2,018,739
Corporate shares	11,690	11,690
Municipal bonds	1,628,039	-
Available-for-sale investments	**41,191,570**	**48,193,549**

Changes in the securities portfolios resulted primarily from an increased balance of low-risk Ukrainian State bonds acquired by the Bank using capital injections by the State.

The following table sets out details of the Bank's held-to-maturity investment securities as at 31 December 2015 and 2016.

	As at 31 December			
	2015		2016	
	Nominal value	Carrying value	Nominal value	Carrying value
	(UAH thousands)			
	(audited)		(audited)	
Ukrainian state bonds	248,483	230,912	147,246	139,098
Held-to-maturity investments		**230,912**		**139,098**

Total Liabilities

The following table sets out details of the Bank's liabilities as at 31 December 2015 and 2016.

	As at 31 December			
	2015	% of total	2016	% of total
	(UAH thousands) *(audited)*	*(%)* *(unaudited)*	*(UAH thousands)* *(audited)*	*(%)* *(unaudited)*
Liabilities				
Amounts due to the NBU	2,979,775	2.1	659	0.0
Amounts due to credit institutions	19,298,870	13.4	27,930,729	18.0
Amounts due to customers	79,317,943	54.9	85,788,952	55.3
Eurobonds issued	33,122,294	22.9	37,562,345	24.2
Subordinated debt	9,375,369	6.5	3,495,895	2.3
Provisions for other losses	22,213	0.0	5,137	0.0
Other liabilities	292,387	0.2	258,246	0.2
Total liabilities	**144,408,851**	**100.0**	**155,041,963**	**100.0**

As at 31 December 2016, the Bank's total liabilities increased by 7.4 per cent. to UAH 155,042 million from UAH 144,409 million as at 31 December 2015.

Amounts due to the NBU

Amounts due to the NBU decreased to UAH 0.7 million as at 31 December 2016 from UAH 2,980 million as at 31 December 2015 as a result of an early repayment of loans due to the NBU that were expected to mature in June 2020.

	As at 31 December 2015	As at 31 December 2016
	(UAH thousands)	
	(audited)	*(audited)*
Loans due to the NBU	2,977,827	-
Correspondent account	1,948	659
Amounts due to the National Bank of Ukraine	**2,979,775**	**659**

The details of the loan due to the NBU as at 31 December 2015 are detailed in the following table:

Deal date	Redemption date	Interest rate	Effective yield	Book value
				(UAH million)
19 March 2009	10 June 2020	Fixed	20%	1,233,266
19 March 2009	10 June 2020	Fixed	20%	1,744,561
Loans due to the NBU				**2,977,827**

Loans due to the NBU were secured by certain loans to customers and investment securities.

Amounts due to credit institutions

	31 December 2015	31 December 2016
	(UAH thousands)	
	(audited)	(audited)
Loans due to international financial organisations	14,045,679	21,878,151
Loans and deposits due to other banks	4,100,747	3,506,844
Current accounts	1,152,421	2,545,460
Other amounts due to credit institutions	23	274
Amounts due to credit institutions	**19,298,870**	**27,930,729**
Held as securities against guarantees	29,705	24,528

Amounts due to credit institutions increased to UAH 27,931million as at 31 December 2016 from UAH 19,299 million as at 31 December 2015 primarily as a result of amounts due to international financial organisations, which grew to UAH 21,878 million as at 31 December 2016 from UAH 14,046 million as at 31 December 2015. This increase was predominantly due to the Bank converting an existing subordinated debt from the EBRD into a U.S.$ 200 million senior loan (see "*Results of Operations for the years ended 31 December 2015 and 2016 Net interest income, net interest margin and net interest spread*" above) together with disbursements under existing loan facilities with international financial organisations.

As at 31 December 2016, the Bank held UAH 1,627 million in current accounts of five other Ukrainian banks compared to UAH 539 million as at 31 December 2015. The amounts were received in accordance with standard banking terms and conditions.

As at 31 December 2016, amounts due to credit institutions included UAH 2,661 million received from Ukrainian banks compared to UAH 1,390 million as at 31 December 2015.

As at 31 December 2016, loans and deposits due to other banks and loans due to international financial organisations included UAH 620 million and UAH 55 million received from OECD banks and international financial organisations, respectively, under certain trade and export financing agreements compared to UAH 1,046 million and UAH 569 million, respectively, as at 31 December 2015. These loans are denominated in U.S. Dollars and euros, bear fixed and floating interest rates and are matched in maturity of loans to customers issued under the respective trade and export financing programmes.

As at 31 December 2016, loans due to international financial organisations included the following:

- loan from the IBRD within the Second Project of Export Development and additional financing for the Second Project of Export Development, together totalling UAH 6,090 million (compared to UAH 5,438 million as at 31 December 2015). The total amount of these loans under the loan agreements is U.S.$ 304.5 million. These loans are denominated in U.S. Dollars. Interest is charged at LIBOR plus spread IBRD, which is reviewed twice a year. As at the date of this Offering Circular, the interest rates for the loans are 1.98 per cent. and 2.28 per cent. and the loans mature in 2026 and 2041, respectively;

- loan from the IBRD for the Project on Energy Efficiency, totalling UAH 4,455 million (compared to UAH 2,474 million as at 31 December 2015). This loan is denominated in U.S. Dollars. The total amount of the loan is U.S.$ 200 million. Interest is charged at LIBOR plus spread IBRD, which is reviewed twice a year. As at the date of this Offering Circular, the interest rate for the loan is 2.19 per cent. The Loan matures in 2040;

- loans from the EBRD within the Energy Efficiency Programmes in Ukraine totalling UAH 457 million (compared to UAH 808 million as at 31 December 2015). These loans are denominated in U.S. Dollars. Interest is charged at LIBOR plus spread EBRD, which is reviewed twice a year. This loan was repaid in November 2017;

- two tranches of loans from the EIB directed to projects targeting SMEs and Mid-Caps as well as energy efficiency and environmental projects of the Bank's customers, totalling UAH 3,731 million (compared to UAH 3,290 million as at 31 December 2015). The total amount of these loans under the loan agreement is equivalent to EUR 100 million. These loans are denominated in U.S. Dollars. Interest is charged per tranche at LIBOR plus spread EIB, which is reviewed twice a year. As at the date of this Offering Circular, the interest rate for each tranche of the loan is 5.02 per cent. and 5.34 per cent. and both tranches are expected to mature in 2023.

For the purposes of the presentation of the cash flow statement, the Bank allocates funds (attracted from credit institutions) to the funds required for its operating and financing activities. Funds raised from other Ukrainian banks and credit institutions are included in the categorisation of funds for operating activities and funds from other banks for financing activities.

Amounts due to customers

	31 December 2015	31 December 2016
	(UAH thousands)	
	(audited)	(audited)
Current accounts		
- Legal entities	13,526,606	17,638,612
- Budget financed organisations	4,699,932	4,424,952
- Individuals	3,002,802	3,516,537
- Funds under the bank's management	13,718	8,077
	21,243,058	**25,588,178**
Time deposits		
- Legal entities	36,643,285	39,218,415
- Individuals	21,431,600	20,982,359
	58,074,885	**60,200,774**
Total amounts due to customers	**79,317,943**	**85,788,952**
Held as security against loans to customers	912,330	445,349
Held as security against letters of credit	444,464	979,840
Held as security against guarantees and avals	535,733	446,921
Held as security against undrawn loan commitments	1,978	1,805

Current accounts opened by legal entities include the funds of the Bank's top ten customers. As at 31 December 2016, such funds amounted to UAH 5,041 million (representing 28.6 per cent. of current accounts belonging to legal entities) compared to UAH 3,471 million (representing 25.7 per cent. of current accounts belonging to legal entities) as at 31 December 2015.

As at 31 December 2016, funds placed by the Bank's top ten customers in individual current accounts amounted to UAH 82 million (representing 2.3 per cent. of funds in such individuals' current accounts) compared to UAH 78 million (representing 2.6 per cent. of funds in such individuals' current accounts) as at 31 December 2015.

As at 31 December 2016, term deposits by legal entities included funds raised from five customers which amounted to UAH 28,550 million (representing 72.8 per cent. of term deposits by legal entities) compared to UAH 27,046 million (representing 73.8 per cent. of term deposits by legal entities) as at 31 December 2015.

As at 31 December 2016, term deposits by individuals included funds raised from ten individuals which amounted to UAH 1,313 million (representing 6.3 per cent. of term deposits by individuals) compared to UAH 1,524 million (representing 7.1 per cent. of term deposits by individuals) as at 31 December 2015.

As at 31 December 2016, term deposits by legal entities included funds raised in gold, which are calculated at fair value through profit or loss and amounted to UAH 14 million compared to UAH 15 million as at 31 December 2015.

As at 31 December 2016, term deposits by individuals included funds raised in gold, which are calculated at fair value through profit or loss and amounted to UAH 82 million compared to UAH 142 million as at 31 December 2015.

In accordance with Ukrainian legislation, the Bank is obliged to return time deposits to individuals on their request only on the maturity date prescribed in the deposit agreement. Return of time deposits on customer request prior to date of maturity or other events stated in the agreement could be done only if it is prescribed under the conditions stipulated by such agreement.

An analysis of customer accounts by economic sector is set out as follows:

	As at 31 December 2015	(%)	As at 31 December 2016	(%)
	(UAH thousands) (audited)	*(unaudited)*	*(UAH thousands) (audited)*	*(unaudited)*
Agriculture and food industry	27,263,219	34.4	29,167,421	34.0
Individuals	24,434,402	30.8	24,498,896	28.6
Trade	6,234,324	7.9	7,018,218	8.2
Budget organisations	4,699,932	5.9	4,424,952	5.2
Mechanical engineering	1,896,796	2.4	3,364,349	3.9
Transport and communications	2,086,555	2.6	2,558,458	3.0
Professional, scientific and technical activities	2,003,401	2.5	2,344,970	2.7
Finance	1,820,697	2.3	2,161,779	2.5
Construction	1,259,118	1.6	1,254,642	1.5
Chemical industry	421,939	0.5	901,909	1.1
Metal processing	446,645	0.6	849,841	1.0
Information and telecommunications	779,643	1.0	759,109	0.9
Production of construction materials	219,211	0.3	750,354	0.9
Power engineering	1,130,043	1.4	728,272	0.7
Real estate	365,163	0.5	564,285	0.7
Metallurgy	122,606	0.2	444,476	0.5
Extractive industry	527,598	0.7	394,394	0.5
Processing	344,104	0.4	306,911	0.4
Health protection	160,222	0.2	302,412	0.3
Wood processing	251,457	0.3	204,238	0.2
Education	99,314	0.1	187,823	0.2
Personal services	154,244	0.2	180,711	0.2
Production of rubber and plastic goods	313,646	0.4	85,669	0.1
Pulp and paper industry	92,645	0.1	83,619	0.1
Light industry	94,774	0.1	75,063	0.1
Hotels and restaurants	99,974	0.1	51,821	0.1
Other	1,996,271	2.5	2,124,360	2.4
Total amounts due to customers	**79,317,943**	**100**	**85,788,952**	**100**

The amounts due to customers slightly increased from 54.9 per cent. of total liabilities as at 31 December 2015 to 55.3 per cent. of total liabilities as at 31 December 2016.

Other liabilities

Other liabilities decreased by 11.7 per cent. to UAH 258 million as at 31 December 2016 from UAH 292 million as at 31 December 2015, predominantly as a the result of the reduction of the guarantee portfolio.

Capital

The Bank pro-actively manages its exposures to ensure that it maintains an adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the value to the shareholder.

The main sources of growth of the regulatory capital of the Bank are statutory capital injections.

In January 2016, and according to the Resolution of the Cabinet of Ministers of Ukraine No 33 dated 27 January 2016, the Bank's share capital was increased by UAH 9,319 million through the issue of 6,373,970 new shares with a nominal value of UAH 1,462.04 each with 100 per cent. of these shares kept by the State of Ukraine. In April 2016, these shares were registered.

The State of Ukraine acquired the additional issue of shares by exchanging them for Ukrainian state indexed bonds with a nominal value of UAH 9,319 million with 10-year maturity and interest rate of 6 per cent. per annum.

The Bank's capital and capital adequacy ratios calculated in accordance with the framework for capital measurement and capital standards of banking institutions set by the Basel Committee published in 1988 are set out in the table below:

	As at 31 December	
	2015	**2016**
	(UAH thousands, except percentages)	
	(audited)	*(audited)*
Tier 1 capital		
Share capital	21,689,042	31,008,041
Accumulated deficit	(25,414,204)	(26,373,110)
Total Tier 1 capital	**(3,725,162)**	**4,634,931**
Tier 2 capital		
Revaluation reserve	664,823	725,335
Subordinated debt	-	2,317,466
Total Tier 2 capital	**-**	**3,042,801**
Total capital	**(3,725,162)**	**7,677,732**
Risk weighted assets	**89,889,011**	**79,994,257**
Total Capital Adequacy Ratio	**(4.1)%**	**9.6%**

The Bank's capital adequacy ratios, computed in accordance with the Basel Capital Accord 1988, as at 31 December 2016 was 9.6 per cent. compared to negative 4.1 per cent. as at 31 December 2015. This improvement was primarily attributable to the injection of capital as described above.

The Bank's capital adequacy ratio in 2015 can be attributed to the following factors:

- an adjustment to the valuation of foreign currency and precious metal accounts due to considerable growth of foreign exchange rates; and
- a growing allowance for impairment of the Bank's assets due to economic conditions in Ukraine (including, but not limited to, the devaluation of the Hryvnia, a decline in the manufacturing sector, and the conflict in certain parts of the Donetsk and Luhansk regions).

While such factors continued to be relevant during 2016, the impact of such factors on the capital adequacy ratio was offset by the statutory capital injections described above.

Financial commitments and contingencies

The Bank's financial commitments and contingencies as at 31 December 2015 and 2016 are set out in the table below:

	As at 31 December	
	2015	**2016**
	(UAH thousands)	
	(audited)	*(audited)*
Guarantees	5,866,577	3,748,869
Letters of credit	463,133	1,115,770
Undrawn loan commitments	181,127	273,651
Avals on promissory notes	34,184	117,620
	6,545,021	**5,255,910**
Less — Provisions	(22,213)	(5,137)
Financial commitments and contingencies (before deducting collateral)	**6,522,808**	**5,250,773**
Less — cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments	(1,011,880)	(1,453,094)
Financial commitments and contingencies	**5,510,928**	**3,797,679**

Contractual Obligations

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. References to liabilities with a term of less than 3 month are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

As at 31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(UAH thousands) *(audited)*		
Amounts due to the NBU	150,436	551,739	3,961,332	-	4,663,507
Amounts due to credit institutions	2,066,080	873,065	7,507,242	14,740,143	25,186,530
Amounts due to customers	66,144,071	12,979,150	1,272,008	72,127	80,467,356
Eurobonds issued	702,020	2,437,806	24,561,115	21,640,812	49,341,753
Subordinated debt	495,054	490,898	10,753,945	1,392,851	13,132,748
Other liabilities	86,281	-	-	-	86,281
Commitments and contingent financial liabilities	1,385,403	3,359,641	1,799,716	261	6,545,021
Total undiscounted financial liabilities	**71,029,345**	**20,692,299**	**49,855,358**	**37,846,194**	**179,423,196**

As at 31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(UAH thousands) *(audited)*		
Amounts due to the NBU	659	-	-	-	659
Amounts due to credit institutions	3,700,861	6,183,234	12,548,953	11,751,119	34,184,167
Amounts due to customers	72,226,352	13,178,342	634,774	90,241	86,129,709
Eurobonds issued	795,333	2,776,891	38,437,040	10,330,032	52,339,296
Subordinated debt	138,685	139,447	3,418,973	919,911	4,617,016
Other liabilities	46,853	-	-	-	46,853
Commitments and contingent financial liabilities	1,023,020	2,576,608	1,628,885	27,397	5,255,910
Total undiscounted financial liabilities	**77,931,763**	**24,854,522**	**56,668,625**	**23,118,700**	**182,573,610**

Results of Operations for the six months ended 30 June 2017

Save as set out in the section entitled "*Recent Developments*" herein, the discussions and summary results in respect of the Bank's activities during the period after 31 December 2016 are based on Interim Six Month Financial Statements which have been reviewed by the Bank's independent auditors. These accounts are prepared in accordance with IAS 34.

The Bank experienced growth in its operations during the first six months of 2017 as the Bank's total assets increased to UAH 168,408 million while total liabilities increased to UAH 154,314 million.

Net Interest Income before allowance for loan impairment

Net interest income before allowance for impairment amounted to UAH 1,500 million in the six months ended 30 June 2017 as compared to UAH 1,643 million in the corresponding period of 2016, which reflected a 2.8 per cent. decrease resulting from a reduction in the amount of loans to customers during the six month period ended 30 June 2017. This was primarily due to the impact of the Bank's conservative lending approach.

During the six months ended 30 June 2017, net interest income was constrained by a high level of credit risk of the loan portfolio and the Bank's conservative lending policy. This resulted in a decrease in net interest margin to 1.9 per cent. for the six months ended 30 June 2017, which was 0.4 per cent. less than the net interest margin for the corresponding period of 2016.

Allowance for loan impairment charge

The impairment of interest earning assets includes changes in the allowance for impairment of loans and advances to customers as well as changes in the allowance for amounts due from credit institutions, which reflects the results of back-testing the historical data base of the Bank's loans and the relevant update of the applicable probability of default rates ("**PD Rates**") and loss given default values ("**LGD Values**") as well as certain market volatility factors.

Allowance for loan impairment charge constituted UAH 1,087 million for the six months period ended 30 June 2017 compared to UAH 2,433 million for the six months period ended 30 June 2016, reflecting the gradual stabilisation of the quality of the loan book.

Net Fees and Commission Income

Net fees and commission income for the six month period ended 30 June 2017 amounted to UAH 291 million, which represented a 16 per cent. decrease in comparison to the corresponding period in 2016. The comparative decrease was primarily attributable to a decrease in the concentrated volumes of guarantees and letters of credit in the first half of 2016, primarily as a result of certain large customers of the Bank reducing their operations requiring guarantees and letters of credit.

Non-interest income

Non-interest income for the six months period ended 30 June 2017 increased to UAH 836 million as compared to the loss of UAH 130 million in the corresponding period of 2016, primarily as a result of translation differences arising from foreign currency revaluations.

As a result of translation differences arising from foreign currency revaluations, the Bank earned UAH 1,145 million, which primarily reflects the revaluation of its open currency position in light of the revaluation of the hryvnia during the first half of 2017. This gain was partially off-set by losses from changes in the fair value of the Bank's investment securities that are designated at a fair value through profit and loss in the amount of UAH 575 million, primarily due to the revaluation of the hryvnia.

The Bank's dealings with foreign currencies decreased to UAH 219 million in the six months period ended 30 June 2017 compared to UAH 231 million in the same period of 2016. The decrease was primarily driven by basing the Bank's operating margins on forex market fluctuations.

The revaluation of the Bank's open position in precious metals (predominantly comprising of gold) as a result of fluctuations in the official exchange rates made a negative contribution of UAH 0.4 million to the Bank's non-interest income for the six months ended 30 June 2017 compared to UAH 4.2 million in the same period in 2016.

Profit/(Loss) before income tax expense

The Bank's profit before income tax expense for the six month period ended 30 June 2017 increased to UAH 788 million from a loss of UAH 1,340 million in corresponding period of 2016 primarily due to the decrease of allowances for loan impairment charge as the quality of the loan book began to stabilise.

Analysis of Financial Condition as at 30 June 2017

Total Assets

As at 30 June 2017, the Bank's total assets amounted to UAH 168,408 million, which represented an increase of 5.0 per cent. from UAH 160,402 million as at 31 December 2016. The increase in total assets is primarily attributable to the capital injections by the State totalling UAH 7,722 million.

Cash and Cash Equivalents

Cash and cash equivalents increased by 41.7 per cent. to UAH 30,283 million as at 30 June 2017, which was primarily due to the redemption of certain Government bonds and an increase in customers' current accounts.

Amounts Due from Credit Institutions

The amounts due from credit institutions decreased by 30.1 per cent. to UAH 1,080 million as at 30 June 2017 as a result of scheduled redemptions of various interbank loans.

Loans to Customers

The Bank's net loans to customers decreased by 2.8 per cent. to UAH 56,847 million as a result of the Bank continued strategy to employ a conservative approach to lending in the first six months of 2017.

Gross loans to customers decreased by 1.3 per cent. to UAH 102,665 million as at 30 June 2017 from UAH 104,020 million as at 31 December 2016, primarily due to the impact of the revaluation of the hryvnia.

The Bank's allowance for impairment of loans to customers increased by 0.6 per cent. to UAH 45,818 million as at 30 June 2017 from UAH 45,551 million as at 31 December 2016, reflecting the results of the back testing and updating of the applicable PD Rates and LGD Values.

Investment Securities

Investment securities increased by 1.8 per cent. during the first six months of 2017 to UAH 73,677 million. The main proportion of the Bank's total investment portfolio consisted of state bonds and NBU deposit certificates.

Total Liabilities

As at 30 June 2017, the Bank's total liabilities amounted to UAH 154,314 million, which represented a decrease of 0.5 per cent. from UAH 155,042 million as at 31 December 2016. The decrease of the Bank's total liabilities is primarily attributable to the revaluation of FX liabilities due to the hryvnia appreciating.

Amounts Due to Customers

Amounts due to customers increased by 4.8 per cent. during the first six months of 2017 to UAH 89,898 million compared to UAH 85,789 million as at 31 December 2016, which was primarily a result of an increase in customers' current accounts. As at 30 June 2017, the share of amounts due to customers constituted 58.3 per cent. of the Bank's total liabilities. The amount due to private individuals accounted for 26.8 per cent. of the aggregate amount due to customers.

Amounts Due to Credit Institutions

Amounts due to credit institutions decreased by 11.4 per cent. during the first six months of 2017 to UAH 24,734 million. The decrease in the amounts due to credit institutions was principally caused by a partial redemption of certain loans due to international financial organisations as well as currency revaluations due to the hryvnia appreciating.

Contingencies and Commitments

As at 30 June 2017, the amount of financial commitments and contingencies decreased by 21.9 per cent. to UAH 4,099 million from UAH 5,251 million as at 31 December 2016. This decrease was primarily attributable to a decline in concentrated volumes of guarantees and letters of credit issued by the Bank.

Capital

In February 2017, according to the Resolution of the Cabinet of Ministers of Ukraine No 54 dated 1 February 2017, the Bank's share capital was increased by UAH 3,022 million through the issue of 2,066,975 additional shares with a nominal share value of UAH 1,462.04 each with 100 per cent. of these shares owned by the State of Ukraine. These shares were registered in March 2017.

The State of Ukraine acquired the shares by exchanging them for government indexed bonds with a total nominal value of UAH 3,022 million, an interest rate of six per cent. per annum and a ten year maturity. At the date of the initial recognition, the difference between the nominal and fair value of the government indexed bonds and contributions received from shareholder was valued at UAH 635 million and recognised directly in equity.

In March 2017, according to the Resolution of the Cabinet of Ministers of Ukraine No 123 dated 6 March 2017, the Bank's share capital was increased by UAH 4,700 million through the issue of 3,214,687 additional shares with a nominal share value of UAH 1,462.04 each with 100 per cent. of these shares owned by the State of Ukraine. These shares were registered in April 2017.

The State of Ukraine acquired the shares by exchanging them for government bonds with a total nominal value of UAH 4,700 million, a nine per cent. per annum interest rate, and a 15-year maturity.

Recent developments since 30 June 2017

Interim Nine Month Financial Statements and Full Year 2017 Information

The Interim Nine Month Financial Statements have been filed with the Irish Stock Exchange and shall be deemed to be incorporated in, and to form part of, this Offering Circular. The NBU has published the Preliminary 2017 Year End Financial Information on its website and such financial information shall not be deemed to be incorporated in, or form part of, this Offering Circular. Neither the Interim Nine Month Financial Statements nor Preliminary 2017 Year End Financial Information have been reviewed by EY or any other independent auditors and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. The Preliminary 2017 Year End Financial Information has not been subject to the completion of the normal year end closing process and final adjustments may arise before the financial results for the year are finalised. Potential investors should exercise caution if using such data to evaluate the Bank's financial condition and results of operations. The Interim Nine Month Financial Statements should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year.

Maintenance of positive trends

During the third quarter of 2017, the Bank maintained the positive trend of the first six months of 2017, continuing to increase profitability and maintaining its conservative approach with respect to the risk-adjusted active transactions.

For the nine months ended 30 September 2017, the Bank showed a net profit of UAH 1,453 million compared to UAH 730 million for the six months ended 30 June 2017. The driver of the net profit growth was the positive result of bad loan recovery of the Bank (certain repayments and restructurings in the loan book during the third quarter of 2017) which resulted in the reversal (decrease) in the volumes of allowance for loan impairment charge, partially offset by the negative translation differences.

While the Bank anticipates that it will continue to show steady growth of profit to the end of 2017, the Bank expects the net profit for the year ended 31 December 2017 to be below the level of the net profit for the nine months of 2017 due to currency exchange rate fluctuations in the fourth quarter of 2017.

Loan Portfolio

The Bank's gross loan portfolio has increased by UAH 848 million in the third quarter of 2017, to UAH 103,513 million as at 30 September 2017 from UAH 102,665 million as at 30 June 2017, primarily due to impact of devaluation of the hryvnia, certain repayments and continued lending to its existing corporate customers.

During the fourth quarter of 2017, the Bank further increased its gross loan portfolio with an increase in exposure to the Bank's largest borrower, a good standing state owned corporate entity.

Securities Portfolio

The Bank's securities portfolio has also experienced a growth in the third quarter of 2017 (by UAH 1,520 million since 30 June 2017) due to the impact of the devaluation of the hryvnia as well as increased investments in liquid low risk Government bonds.

Loans to the Bank

During the fourth quarter of 2017 the Bank made the scheduled repayment of outstanding amounts of certain bilateral loans to foreign banks totalling U.S.$ 100 million.

UKRAINE: THE BANKING SECTOR

The statistical information and other data contained in this section has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU and other governmental or mass media sources). Each of the Issuer and the Bank confirms that such information has been accurately reproduced and that, as far as the Issuer and the Bank are aware and are able to ascertain from information published by the relevant source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Ukrainian Banking Sector

The Ukrainian banking sector is a two-tier structure made up of the NBU and commercial banks. As at 30 November 2017, 86 banks were operating in Ukraine (excluding insolvent banks undergoing temporary administration).

The majority of banks in Ukraine are privately owned. Three largest Ukrainian banks (by assets), the Bank, Public Joint Stock Company "State Savings Bank of Ukraine" and Public Joint-Stock Company Commercial Bank "Privatbank", are fully state-owned. The State is also a majority shareholder in Public Joint-Stock Company Joint Stock Bank "Ukrgasbank" (state-owned stake of 94.9 per cent.) and Public Joint-Stock Company "Settlement Center", an entity servicing certain cash settlements and other payments relating to securities and other financial instruments (83.54 per cent. share is owned by the NBU, which is a state authority).

In recent years, the Ukrainian banking system has been severely impacted by the adverse developments in the economic, political and social situation in Ukraine. The claimed annexation of the territory of Crimea by Russia and hostilities which broke out in the eastern territories of Ukraine caused substantial losses to the banks actively operating in these territories. Deep depreciation of the Ukrainian hryvnia in 2014 and 2015 has affected the banks' capital and caused deposit outflow from the banking system. As a result, since 1 January 2014, 96 commercial Ukrainian banks have been placed into temporary administration and/or have been placed by the NBU into liquidation (although decisions of NBU on insolvency and/or liquidation of certain banks have been challenged in courts).

The banks act in accordance with, among other laws, the Law of Ukraine "On the National Bank of Ukraine" of 20 May 1999 (the "National Bank Law"), the Law of Ukraine "On Banks and Banking Activity" of 7 December 2000 (the "Banking Law"), the Ukrainian legislation on joint stock companies and other business entities, as well as various NBU regulations and their respective Charters.

Role of the NBU

The NBU is the central bank of Ukraine. Established in 1991 and governed by the Constitution of Ukraine and the National Bank Law, the NBU is a specialised State institution with the principal objective of ensuring the external and internal stability of the national currency and has broad regulatory and supervisory functions in the banking sector. The NBU is empowered to develop and conduct monetary policy, organise banking settlements and the foreign exchange system, ensure stability of the monetary, financial and banking systems of Ukraine, and protect the interests of commercial bank depositors. The NBU sets the official exchange rate of the national currency with respect to foreign currencies, as well as the discount rate and other interest rates. The NBU is also responsible for the accumulation and custody of Ukraine's gold and currency reserves. In addition, it registers commercial banks, issues licences, supervises the operations of Ukrainian banks and determines the procedures for providing emergency funds to commercial banks.

The principal governing bodies of the NBU are the Council and the Board. The Council, the highest governing body of the NBU, consists of nine members, four of whom are appointed by Parliament and four of whom are appointed by the President. The Governor of the NBU (nominated by the President and appointed by Parliament for a seven year term) acts ex officio as the ninth member of the Council. The Council is charged, in particular, with formulating the principles of Ukraine's monetary policy. The Board, which is comprised of the Governor and his or her deputies, is responsible for implementing Ukraine's monetary policy, the development and implementation of other NBU policies, and generally managing the activities of the NBU.

Monetary Policy

The NBU is charged with implementing monetary policy. Currently, the NBU implements monetary policy through instruments such as mandatory reserve requirements for banks, interest rates, refinancing of commercial banks, gold and foreign currency reserves management, open market transactions, etc.

Since 2009 until late 2013, the NBU gradually decreased its discount rate from 12.0 per cent. to 6.5 per cent. However, in 2014 to 2015, in its efforts to address the rising inflation and sharp depreciation of the Ukrainian hryvnia, the NBU repeatedly increased the discount rate up to a maximum of 30 per cent. as at 4 March 2015. Since August 2015, in view of the lower inflation and devaluation pressure, the NBU started to gradually decrease the discount rate from 27 per cent. as at 28 August 2015 to 12.5 per cent. as at 26 May 2017. On 26 January 2018, due to certain indicators of raising inflation risks, the NBU increase the discount rate to 16.0 per cent.

Since 1 March 2004, within its interest rate policy, the NBU has been setting and publishing the interest rates on overnight unsecured loans and overnight loans secured by State securities. In June 2013, with the aim of improving the indication of the overnight interest rate spreads, the NBU suspended publications of interest rates for unsecured overnight loans and started publishing interest rates on overnight deposit certificates of the NBU. As at 13 February 2018, the interest rate on overnight loans secured by State securities was set at 18.0 per cent. per annum and the interest rate on overnight deposit certificates was set at 14.0 per cent. per annum.

The priority of the NBU's monetary policy for 2017 was to prevent materialisation of the inflation risks and maintaining the inflation level of 8 per cent. (± 2 per cent.) as at the year end of 2017. According to the NBU, this will generally remain a priority of the NBU's monetary policy for 2018 with the inflation level target being 6 per cent. (± 2 per cent.) as at the year end of 2018.

Regulation

Banking activities in Ukraine are regulated by several laws and numerous regulations issued by the NBU. The principal legislation in the area is the Banking Law. The NBU oversees compliance with the Banking Law, regulations and other legislation and imposes appropriate sanctions for violations of those laws and regulations. The Instruction On the Procedure for Regulating Banking Activity in Ukraine approved by the resolution of the Board of the NBU No. 368 dated 28 August 2001 (the "Banking Activities Instruction") establishes capital adequacy, liquidity and other ratios, pursuant to the authority of the NBU granted under the Banking Law and the National Bank Law. The NBU also sets accounting, reporting, auditing and other requirements for commercial banks. A Ukrainian commercial bank may carry out so-called exclusive "banking activities" (i.e., taking deposits, opening and maintaining of bank accounts and investment of raised funds) and a number of other financial services only with a banking licence issued by the NBU. In order to be able to operate with foreign currency, Ukrainian banks are required to obtain a general currency licence from the NBU.

Reporting Requirements

Banks are required to submit an annual report that contains audited financial statements and consolidated financial statements if a bank has affiliates under its control. Financial statements include a statement of financial position (balance sheet), statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement, a summary of significant accounting policies (as may be relevant) and other explanatory notes. Since 1 December 2015, interim financial statements are prepared on a consolidated and unconsolidated basis (depending on whether a bank has affiliates under its control) by banks on a quarterly basis in compliance with the IFRS 34 (*Interim Financial Reporting*). Interim financial statements include an interim condensed statement of financial position (balance sheet), interim condensed statement of profit and loss and other comprehensive income, interim condensed statement of changes in equity, interim condensed cash flow statement and explanatory notes. Banks are also required to submit to the NBU information on related parties on a monthly basis and statistical data on a daily, ten day, monthly and quarterly basis that ensures permanent review by the NBU of a bank's performance and financial position.

Guaranteeing Deposits of Individuals

With effect from 22 September 2012, the Law of Ukraine "On the System of Guaranteeing of Deposits of Individuals" of 23 February 2012, No. 4452-VI (the "**Deposits Guaranteeing Law**") replaced the previously effective legislation governing a system of guaranteeing deposits held by individuals with Ukrainian banks.

Pursuant to the Deposits Guaranteeing Law, commercial banks in Ukraine are obliged to become members of the Deposit Guarantee Fund (the "**Fund**") and remit to the Fund an initial contribution in the amount of 1 per cent. of their registered authorised capital (payable once after obtaining a banking licence), a regular quarterly contribution in the amount of 0.5 per cent. of the average weighted amount of daily balances of UAH denominated deposit accounts and 0.8 per cent. of the average weighted amount of daily balances of foreign currency denominated deposit accounts opened with the relevant banks. The Fund is authorised to require payment of a special contribution for the purposes of repayment of loans borrowed by the Fund or in case the amount of funds held by the Fund (including the amount of contributions to be paid by the member-banks within the then current quarter) is below 2.5 per cent. of the guaranteed amount of deposits. The Fund may also be funded, inter alia, through borrowing funds from the NBU and issuing bonds or promissory notes. Currently, the Fund guarantees deposits with commercial banks, including interest, to a maximum of UAH 200,000 per depositor with each such bank. Deposits become eligible for compensation from the funds held by the Fund on the date of the NBU's resolution on revocation of the banking licence and liquidation of the relevant bank. The Deposits Guaranteeing Law does not apply to the Joint Stock Company "State Savings Bank of Ukraine", deposits made with which are guaranteed for the full amount by the State of Ukraine. As of 31 January 2018, the total amount of funds accumulated by the Fund amounted to UAH 15.2 billion. As of 31 December 2017, the Fund had 83 member banks.

Reserve and Liquidity Requirements

Ukrainian banks are required to maintain certain mandatory reserves calculated in accordance with the NBU regulations.

Generally, a commercial bank is required to annually transfer to its reserve fund no less than 5 per cent. of its profits, until and unless such reserve fund is equal to 25 per cent. of the bank's regulatory capital. In case of the deterioration of the financial condition of a bank, the NBU may require such bank to increase the amount of its reserve fund.

The NBU has also established mandatory reserve requirements to maintain the liquidity of the banking system and the stability of the Ukrainian hryvnia. The reserves are in the Bank's correspondent account with the NBU. Reserve requirements are computed as a percentage of certain of the bank's liabilities. In particular, with effect from December 2014, the reserves may not be less than the aggregate of: 6.5 per cent. of call deposits and current accounts of customers in national and foreign currency, 3 per cent. of term deposits of customers in national and foreign currency. Currently, funds borrowed from Ukrainian banks and international financial organisations, as well as funds borrowed as subordinated debt are not subject to such mandatory reserve requirements.

Further, with effect from 1 August 2008, Ukrainian banks were required to maintain reserves for short-term (less than 183 days) funds (e.g., loans and deposits) received from non-residents. Overnight loans and deposits, as well as loans and deposits guaranteed by the Government or received from international financial organisations where Ukraine is a member are exempt from the above reserve requirements. Until 15 July 2014, the banks were required to maintain the reserves at the level of 20 per cent. of the aggregate amount of short-term funds received from non-residents. On 15 July 2014, to address the lack of foreign currency liquidity with Ukrainian banks, the NBU set a 0 per cent. reserve rate for such funds.

The NBU has also established three separate liquidity ratios. A bank must have an instant liquidity ratio of at least 20 per cent. (i.e., the ratio of certain bank's funds on its correspondent accounts, cash and unencumbered deposit certificates of the NBU to its current liabilities), a current liquidity ratio of at least 40 per cent. (i.e., the ratio of bank's assets with maturities of up to (and including) 31 days to liabilities with maturities of up to (and including) 31 days) and a short-term liquidity ratio of at least 60 per cent. (i.e., the ratio of liquid assets with maturities of up to one year less the amount of the provisions formed for such assets to liabilities with maturities of up to one year). The NBU has defined liquid assets with maturities of up to one year to include cash funds, bank metals, funds placed with correspondent accounts with the NBU (excluding the funds placed as reserves), term deposits placed with the NBU, certain funds placed with correspondent accounts with commercial banks, debt securities in the bank's trade portfolio, available-for-sale portfolio and held-to-maturity portfolio and investment in affiliated companies and subsidiaries made with the purpose of further sale, certain interbank deposits and loans, loans and advances to customers. Liabilities with maturities of up to one year are defined to include funds on the NBU correspondent account opened with the bank, demand liabilities, budget funds, loans (including overdue indebtedness under short-term and long-term loans) and term deposits from the NBU, certain interbank loans and deposits, customer deposits, debt instruments issued by the bank, subordinated debt, past due indebtedness under interbank loans and term deposits, accounts payable in relation to assets acquisition and liabilities under all types of guarantees and committed credit lines to banks and customers.

On 14 December 2016, the NBU introduced a new means of emergency liquidity support for solvent banks that have an influence on the stability of Ukraine's financial system, the emergency liquidity assistance programme (the "ELA Programme"). Loans provided under the ELA Programme, must be used for the sole purpose of covering the temporary deficit of a bank's liquidity in the event of an emergency, where the bank has no other means to support its liquidity, in particular by using shareholders' funds and NBU's standard refinancing tools. Banks must apply the proceeds of such loans only to meet their commitment to depositors and lenders (excluding bank's related parties).

Capital Requirements

The NBU has established requirements for capital adequacy, minimum share capital requirements and minimum regulatory capital requirements.

As at the date of this Offering Circular, the minimum share capital of a newly-established bank as at the date of its registration is required to be UAH 500 million. This requirement was introduced pursuant to amendments to the Banking Law with effect from 11 July 2014. Banks that existed prior to 11 July 2014 are required to ensure that their share capital amounts to UAH 500 million by 11 July 2024.

Regulatory capital (i.e. the sum of principal (core) capital and additional capital) of a bank may not be less than its share capital and minimum regulatory capital requirements established by the NBU. Currently, the minimum regulatory capital requirement for newly established banks which received their banking licence after 11 July 2014 is UAH 500 million. Banks licensed before 11 July 2014 are required to gradually increase their regulatory capital from a minimum of UAH 120 million as at 10 July 2016 to a minimum of UAH 500 million as at 11 July 2024.

According to the NBU requirements, the regulatory capital of a bank should be at least 10 per cent. of its risk-weighted assets and certain off-balance sheet instruments. For banks that have been operating for less than 12 months, regulatory capital ratio is required to be no less than 15 per cent. of such bank's risk-weighted assets and certain off-balance sheet instruments, and for banks that have been operating for between 12 and 24 months, the regulatory capital ratio is required to be no less than 12 per cent. of such bank's risk-weighted assets and certain off-balance sheet instruments. Risk-weighted assets, or credit risk profile of a bank, are calculated by applying various risk weights to bank's assets and off-balance-sheet commitments according to the terms set by NBU. The previously effective NBU requirements regarding the ratio of the regulatory capital to total assets and liabilities were cancelled on 25 December 2014.

As a result of the sharp depreciation of the Ukrainian hryvnia in 2014 which negatively affected capital adequacy ratios of the Ukrainian banks, the NBU has suspended its sanctions for failure by a bank to comply with the NBU mandatory ratios, provided that such non-compliance is being remedied in accordance with an action plan submitted by such bank to the NBU and subject to compliance by such bank with certain restrictions. Currently such restrictions include (subject to certain exceptions) prohibitions on re-purchase and/or early redemption of the bank's own shares, payment of dividends or any other capital distribution and prepayment of deposits to substantial shareholders.

In order to approach the best practices and standards of Basel III, the NBU adopted Resolution No. 312 dated 12 May 2015, "On Amendments to the Instruction on Banking Regulation in Ukraine" ("**NBU Resolution**

No. 312") which established new requirements for bank capital, capital conservation buffer and countercyclical capital buffer for all banks, as well as a systemic buffer for "systemically important banks".

Pursuant to NBU Resolution No. 312, starting from 1 January 2019, the capital adequacy ratio of a bank should be at least 7 per cent. The capital conservation buffer and countercyclical capital buffer are intended to be introduced starting from 1 January 2020. The buffers will be formed over the capital adequacy ratio and will be intended to ensure that the banks are able to cover losses in the periods of financial and economic instability. According to NBU Resolution No. 312, the level of capital conservation buffer will be required to gradually increase over 2020-2023 from 0.625 per cent. to 2.5 per cent. of risk-weighted assets and balance sheet commitments. The level of countercyclical capital buffer will range from 0 per cent. to 2.5 per cent. of risk-weighted assets and balance sheet commitments (depending on the economic cycle phase).

NBU Resolution No. 312 also establishes certain requirements to "systemically important banks". From 1 January 2019, the instant liquidity ratio should be at least 30 per cent. and the single counterparty exposure limit should be not more than 20 per cent. Moreover, starting from 1 January 2020, the systemic buffer will be introduced and establish a range from 1 per cent. to 2 per cent. of risk-weighted assets and balance sheet commitments (depending on the category of "systemically important bank").

Loan Provisioning

Since 2015, banks have been required to set up provisions for active banking operations exclusively in accordance with IFRS. Thus, the NBU has no rules of its own to regulate the provisioning methodology.

At the same time, under Principle 18 "Problem assets, provisions and reserves" of the Basel Committee's Core Principles for Effective Banking Supervision, the supervisory body must determine that the provisioning is adequate for prudential purposes, and that such provisions should fully reflect expected losses. The NBU in June 2016 set minimum requirements for the assessment of credit risk by banks that have been mandatory for Ukrainian banks since the beginning of 2017.

This requirement is intended to ensure that banks conduct full and timely assessments of credit risk, thus making determination of the amount of regulatory capital required more accurate, to in turn enhance the financial stability of the banking system, and sets out improved approaches to the assessment of prospective losses from credit risk (based on the Basel Principles for Banking Supervision), allowing banks and the regulator to use their reasonable judgement.

Under the rules of determining the regulatory capital, effective from 1 January 2016, if the total credit risk exceeds the total amount of reserves set up under IFRS to cover losses from active banking operations, then the amount of the regulatory capital is decreased by the difference resulting from such excess (uncovered credit risk exposure).

Recent Developments in the Banking Sector

Since the second quarter of 2014, the Ukrainian banking sector has been severely impacted by negative economic, political and social developments in Ukraine. These include claimed annexation of the territory of the Autonomous Republic of Crimea by Russia and hostilities which have broken out in the territory of Eastern Ukraine which resulted in loss of financial assets and tangible property by the banks actively operating in those territories. The Ukrainian banking sector has generally suffered from a number of significant weaknesses, which have included, among others, undercapitalisation, weak corporate governance and management, poor asset quality and excessive political intervention in the operation of some banks.

Since 1997, Ukraine has been implementing a series of banking sector reforms under the IMF reform programme with the aim of supporting commercial banks that undertake structural reforms and demonstrate long-term stability of their activities. As part of the IMF programme on banking sector reform, Parliament adopted the Banking Law on 7 December 2000, which provides a legal basis for strengthening the regulation of the banking system. The NBU oversees the activities of commercial banks using both off-site and on-site inspections and through a system of audits. During the period until 2008, the Ukrainian Parliament and the NBU adopted laws and regulations aimed at improving the operation of the Ukrainian banking sector. These include new laws relating to secured lending, issuance of mortgage-backed securities, new instruments for refinancing of Ukrainian banks and a regulatory framework for operation of credit bureaus.

The global economic downturn and financial turmoil in developed economies in the second half of 2008 revealed the significant weaknesses in the Ukrainian banking system resulting in considerable withdrawals of deposits and lending freezes which contributed to liquidity problems faced by many Ukrainian banks. The Parliament, the Government and the NBU have taken a number of measures to address the instability in Ukrainian sector, including measures aimed at preventing funds outflows and ensuring due liquidity levels of banks. In particular, the Parliament adopted laws expanding the powers of the NBU to monitor activities of the Ukrainian banking groups, prohibiting consumer loans in foreign currency in Ukraine and introducing certain other measures aimed at protecting borrowers. In 2010 and 2011, a number of laws and proposals to facilitate the restructuring of problem assets were adopted, urging recapitalisation and restructuring of problem banks. Ukrainian government continued the process of recapitalisation, reorganisation or liquidation of the banks that became insolvent during the 2008 to 2009 financial and economic downturn, and tightened disclosure requirements and liability for the misuse of inside information in the securities market.

In 2012, the Parliament introduced substantial changes into the temporary administration and liquidation procedures of the Ukrainian banks. In particular, once the bank is recognised insolvent by the NBU, a temporary administration is introduced with such bank. The authority of managing the temporary administration of an insolvent bank has been granted to the Fund (previously, the NBU had this authority). During the term of the temporary administration, all powers of the bank's governing bodies are transferred to a temporary administrator appointed by the Fund, a moratorium is introduced on claims of the bank's creditors. The law introduced new measures that may be taken by the Fund in respect of the insolvent bank and its assets under the temporary administration. In particular, the Fund may submit a proposal to the NBU on liquidation of the insolvent bank, transfer all or part of the insolvent bank's assets to another bank, transfer the insolvent bank's assets to a specially established “transitional” bank and sell such “transitional” bank to an investor or sell the insolvent bank itself.

In 2013, Ukraine continued further capitalisation of banks and facilitation of the consolidation in the financial sector, continued to undertake steps to improve prudential supervision over financial institutions (including the introduction of supervision on a consolidated basis), and completed a transition to the preparation of financial statements by all financial institutions in accordance with the IFRS.

Throughout 2014, the political upheavals, the conflict in certain parts of the Donetsk and Luhansk regions, large macroeconomic imbalances and long-delayed structural reforms had a serious negative impact on Ukrainian financial system, with growing fiscal imbalances and de facto fixed exchange rate putting pressure on countries reserves. The banking sector has witnessed a significant deposit outflow since the beginning of 2014. The Ukrainian currency has witnessed drastic downfall from 7.9930 UAH/ U.S.$1 as at 1 January 2014 to 22.0735 UAH/ U.S.$1 as at 27 July 2015.

On 3 June 2014, the Parliament of Ukraine adopted the law “*On Moratorium on Enforcement over Property of Citizens of Ukraine Provided as Security under the Foreign Currency Loans*”, which introduced a moratorium, subject to certain conditions, on the enforcement of security under retail loans of Ukrainian citizens made in foreign currency. In addition, banks are prohibited from assigning, selling or otherwise transferring any indebtedness under such loans to third parties. This law will remain in force until a new law on the repayment of indebtedness under retail loans with the principal denominated in foreign currency becomes effective.

On 4 July 2014, the law “*On Amendments to Certain Laws of Ukraine as to Preventing Negative Influence on Stability of the Banking System*” was adopted. The law authorises the NBU to establish a specific regulatory regime during crises, create conditions for immediate capitalisation of the banks, introduce the concept of a “systemically important bank” and specific regulations applicable to such banks. The new requirements for the minimum regulatory capital were implemented by this law. The regulatory capital for banks created after 11 July 2014 shall be equal to UAH 500 million and the banks, which were created earlier, shall raise their regulatory capital up to the same level until 11 July 2024.

From August 2014, the NBU suspended the banking operations and transactions in the territory outside the control of Ukrainian authorities (certain parts of the Donetsk and Luhansk regions). On 3 November 2014, the NBU determined specific rules as to the currency regulations in the territory of Autonomous Republic of Crimea. The persons residing in and legal entities registered in the territory of Autonomous Republic of Crimea are to be treated as non-residents for the purposes of currency regulations and control.

On 28 December 2014 the law "*On Measures Aimed at Promoting Capitalisation and Restructuring of the Banks*" was adopted by the Ukrainian Parliament. Until 1 January 2017, the law temporarily entitled the NBU, upon conduct of a diagnostic survey by a bank and an independent audit firm showing that the bank needs additional capitalisation, to require banks to conduct capitalisation and/or restructuring to meet capital adequacy requirements. The capitalisation and/or restructuring programme was prepared by the bank and filed with the NBU for its approval. During the period between 30 December 2014 to 1 January 2017, the banks which were not recapitalised by their shareholders and which did not provide the NBU with satisfactory recapitalisation and/or restructuring programmes could be (i) recapitalised or restructured using public funds provided they satisfied the strict criteria provided for by such bank capitalisation law or (ii) declared insolvent by the NBU.

On 17 January 2015, the NBU approved the resolution "*On Amendments to Certain NBU Regulations*" authorising the NBU to require termination of authorities of banks' management board members if an audit of a bank or the bank's monitoring uncovers non-compliance with their obligations. The NBU was authorised to demand an extraordinary meeting of banks' supervisory board for these purposes.

On 7 February 2015, the law "*On Prevention of, and Counteraction to Legalization (Laundering) of the Proceeds of Crime, Terrorist Financing or Financing the Distribution of Mass Destruction Weapons*" entered into force. The law strengthened banks' and other financial institutions' obligations on the monitoring of financial transactions, bringing it in line with the most recent FATF recommendations and IMF requirements under the stand-by arrangement.

On 2 March 2015, the law "*On Amendments to Certain Laws of Ukraine as to Liability of Persons Related to a Bank*" was adopted by the Parliament. The law imposed strict requirements as to filing information on persons and/or entities related to a bank and updating any changes thereto. The law also provided for administrative and criminal liability for bank management, beneficial owners and owners of significant shareholdings for filing misleading information with the NBU, taking actions leading to bank's insolvency and other violations of banking legislation.

On 14 May 2015, the Parliament adopted the law "*On Amendments to Certain Legislative Acts of Ukraine (in respect of Withdrawal of the Term Deposits)*", which became effective on 6 June 2015. According to the law, the depositors were deprived of the right to withdraw their term deposits at any time prior to the maturity thereof, unless otherwise provided by the respective deposit agreement. However, this did not apply to the deposit agreements that had been entered into prior to the date of effectiveness of the law.

On 2 July 2015, the Parliament of Ukraine passed the draft law "*On Restructuring of Obligations under Loans Denominated in Foreign Currency*". The draft law provided, inter alia, that upon written request of the borrower under a consumer loan denominated in foreign currency, the lender was required to convert the outstanding loan amount into Ukrainian hryvnias at the official exchange rate of the NBU effective as of the date of execution of the respective loan agreement. The President of Ukraine and the NBU criticized the adoption of the draft law as resulting in negative consequences for the country's financial and banking system, and the aforesaid law was therefore vetoed by the President on 18 December, 2015 and subsequently repelled on 27 January 2016.

On 16 July 2015, the Parliament adopted the law "*On Amendments to Certain Legislative Acts of Ukraine on Improvement of the System of Guaranteeing of Individuals Deposits and Withdrawal of Insolvent Banks from the Market*", which, among other things, (i) amended the grounds for declaring banks insolvent; (ii) expedited the procedure for compensating individuals for their deposits; (iii) prohibited investors from acquiring any shares or assets of an insolvent bank if they or their shareholders are related parties of that insolvent bank; (iv) amended the order of priority for the satisfaction of creditors' claims (in particular, claims of related parties and claims under subordinated debt may only be satisfied after all other creditors' claims); (v) provided for the consolidated sale of the assets of several banks in liquidation; and (vi) amended the procedure for state participation in the withdrawal of an insolvent bank from the market.

With effect from 11 January 2016, the NBU passed a resolution lifting the ban on registration of transfers and assignments of cross-border loan agreements that was introduced in August 2015. The resolution, while revoking the ban, also introduced additional documentation requirements in connection with the registration of the transfers and assignments.

In order to enhance the effectiveness of banking supervision and ensure the stability of the banking system in Ukraine, the NBU, pursuant to the Memorandum on Economic and Financial Policy, which is part of the IMF's 2015 EFF, has carried out stress tests on Ukrainian banks. In 2015, the NBU conducted stress-tests on Ukraine's 20 largest banks, of which four were found sufficiently capitalised and 16 were undercapitalised. In 2016, the NBU approved the results of a diagnostic inspection of:

(i) the 19 largest banks, of which seven were found to have sufficient capitalisation and 12 were required additional capitalisation; and

(ii) the 21 subsequent largest banks, of which 10 banks were found to be sufficiently capitalised and 11 required additional capitalisation.

As of July 2017, 18 banks have implemented the additional capitalisation requirements in full. In respect of seven banks, the NBU issued decisions on revocation of banking licences and liquidation due to failure to comply with the capitalisation requirements.

In October 2016, the Law of Ukraine "*On Financial Restructuring*" providing a new framework for corporate debt restructuring entered into force. The law introduced out-of-court restructuring proceedings, with certain administrative supervision, that were conducted through negotiations between the debtor and its creditors. The purpose of the law is to stimulate Ukrainian creditors (primarily, banks) and debtors to conduct consensual resolution of distressed debts for mutual benefit. To achieve that, the law introduced certain tax benefits for implementation of restructuring mechanisms (e.g., exempt from VAT for certain assets disposal transactions). To initiate the restructuring procedure, the debtor is required to file an application with the designated administrative body handling technical support of the proceedings. After commencement of restructuring, the parties will have maximum of 180 days to complete the proceedings and agree on a restructuring plan. Upon the commencement of the restructuring procedure, a moratorium would automatically be imposed prohibiting any enforcement action by the participating creditors and all the debtor's related parties.

On 1 December 2016, the NBU presented the new concept of currency regulation, which provides for a phased and gradual simplification/cancellation of currency restrictions towards a regime of free movement of capital envisaged under the EU – Ukraine association agreement. In addition, the roadmap for the gradual cancellation of currency restrictions with implementation phases which are tied to specific macroeconomic conditions instead of calendar dates was developed together with IMF experts. The NBU, together with experts from the European Commission, have prepared a draft law "*On Currency*" intended to replace the existing Decree "On Currency Regulation and Currency Control" and providing for the establishment of the free movement of capital on the cross-border level.

On 18 December 2016, the NBU declared Privatbank insolvent, with subsequent nationalisation of the bank on 21 December 2016 taking into account the systemic importance of the bank for the financial sector and economy. At the time of nationalisation, the NBU identified a total additional capital requirement for the bank in the amount of UAH 148 billion. As a result of the nationalisation of Privatbank, the State's equity share in the banking sector exceeded 50 per cent.; in particular, its share in the net assets of the banking system reached 56 per cent. and its share in deposits of the banking system reached 62 per cent.

On 23 March 2017, the Parliament approved the draft law "*On Introducing Changes to Certain Legislative Acts of Ukraine on Improving Corporate Governance in Joint Stock Companies*". Along with the establishment of the squeeze-out and sell-out procedures in joint stock companies, the law introduced enhanced legal framework on creating security over bank accounts that took effect on 4 June 2016. In particular, new rules allowed specification of minimum account balance that would permit transactions by the account holder (the security provider), subject to the amount of security. Furthermore, the law introduced liability of the account bank provided that it had been duly notified of an arrangement creating security over bank accounts.

On 6 February 2018, the Parliament passed the draft law creating a legal framework for establishment of credit register under management of the NBU. The credit register is expected to consolidate information on loan exposure of existing or potential clients of the banks and would be open to both banks and credit bureaus in Ukraine, allowing them to improve effectiveness of risk management. If the law is subsequently signed by the President, implementation of the credit register will commence on 1 April 2018.

On 16 November 2017, the Parliament adopted the law "*On Amendments to Certain Legislative Acts of Ukraine (In Relation to Simplifying Business Activity and Attraction of Investments by Securities Issuers)*". The law, in particular, changed the approach to defining a public joint stock company and allowed the banks to be incorporated as private joint stock companies (previously, banks could only be incorporated in the form of a public joint stock company). The law also enhanced corporate governance in banks. In particular, a requirement was introduced for one third of a bank's supervisory board members (and in any event not less than three members) to be independent directors. Supervisory boards are required to submit performance reports to the bank's general meeting of shareholders. The law became effective on 1 January 2018 and the banks are required to bring their corporate governance in compliance with the law until 1 January 2019.

On 18 December 2017, the NBU adopted Resolution No. 133 enabling Ukrainian banks to establish and service escrow accounts under escrow arrangements with their clients. Under an escrow arrangement, a bank would open a special account for its client and could only release the funds from such account to the beneficiary upon the presentation of certain agreed documentation. Further, Ukrainian banks are permitted to establish escrow accounts for both Ukrainian residents and foreign investors in different currencies.

On 15 February 2018, the NBU adopted Resolution No. 11 which requires the banks to regularly publish on their websites information regarding the following performance indicators: (i) trial balances, (ii) distribution of loans granted to individuals and legal entities based on debtor classes, (iii) loans granted to economic entities depending on types of economic activity, which are categorised by sections, (iv) economic ratios and open currency position limits, and (v) ratios and components of calculation of regulatory capital. Such information will also be published on the NBU website.

On 15 February 2018, the NBU adopted Resolution No. 13 introducing a liquidity coverage ratio (a ratio of high-quality liquid assets to total expected net cash outflows over a 30-day period) to the existing prudential requirements of Ukrainian banks. The NBU has not yet established a specific requirement for the liquidity coverage ratio. Starting from 1 June 2018, such ratio will be calculated and reported in test mode. From 1 December 2018, Ukrainian banks will be required to comply with the liquidity coverage ratio subject to a threshold to be set by the NBU.

The NBU is currently working on draft law "*On Amendments to Law of Ukraine* "*On Banks and Banking Activities*"" that is intended to enhance responsibility of the bank's board in terms of expanding its responsibilities by establishing committees of the bank's board carrying out annual evaluation of their activities/committees' activities, defining wage policy, and establishing corporate ethics code and policies for preventing conflicts of interest, as well as introduction of a mechanism for confidential notification by the employees of the bank about illegal, unethical, suspicious practices in the bank.

Competition

As at 30 November 2017, 86 banks were operating in Ukraine (excluding insolvent banks undergoing temporary administration).

As at 30 September 2017, the assets of all commercial banks in Ukraine amounted to UAH 1,280 billion (approximately U.S.$47.2 billion); their credit portfolio amounted to UAH 992 billion (approximately U.S.$36.6 billion); their equity capital amounted to UAH 169 billion (approximately U.S.$6.2 billion), corporate deposits and current accounts amounted to UAH 444 billion (approximately U.S.$16.4 billion) and retail deposits and current accounts amounted to UAH 447 billion (approximately U.S.$16.5 billion) (all figures in this paragraph have been converted using the exchange rate U.S.$1/ UAH 27.109151 as at 7

December 2017).

According to NBU, during the nine months ended 30 September 2017, the share capital of operating Ukrainian banks holding licences to undertake banking operations increased by 47.3 per cent. and amounted UAH 437 billion as at 30 September 2017, compared to increasing by 34.9 per cent. and amounting to UAH 265 billion and increasing by 7.1 per cent. and amounting to UAH 192 billion at the same periods of 2016 and 2015, respectively.

During the nine months ended 30 September 2017, the equity capital of operating Ukrainian banks holding licences to undertake banking operations increased by 36.4 per cent. and amounted to UAH 169 billion as at 30 September 2017, compared to increasing by 61.3 per cent. and amounting to UAH 151 billion and decreasing by 12.8 per cent. and amounting to UAH 129 billion at the same periods of 2016 and 2015, respectively.

During the nine months ended 30 September 2017, the assets of operating Ukrainian banks holding licences to undertake banking operations increased by 3 per cent. and amounted to UAH 1,281 billion as at 30 September 2017, compared to increasing by 4.4 per cent. and amounting to UAH 1,274 billion and decreasing by 8.2 per cent. and amounting to UAH 1,209 billion at the same periods of 2016 and 2015, respectively.

During the nine months ended 30 September 2017, the total liabilities of operating Ukrainian banks holding licences to undertake banking operations decreased by 0.6 per cent. and amounted to UAH 1,112 billion, compared to decreasing by 0.3 per cent. and amounting to UAH 1,123 billion and decreasing by 7.6 per cent. and amounting to UAH 1,080 billion at the same periods of 2016 and 2015, respectively.

As at 30 November 2017, the share of non-performing loans in loan portfolios of operating Ukrainian banks amounted to UAH 580 billion and constituted 54.9 per cent.

As at 31 December 2017, the system-wide capital adequacy ratio of operating Ukrainian banks constituted 16.1 per cent. Additionally, as at 31 December 2017 the system-wide instant liquidity ratio, the current liquidity ratio and the short-term liquidity ratio of operating Ukrainian banks constituted 55.55 per cent., 108.08 per cent., 98.37 per cent., respectively.

During the nine months ended 30 September 2017, the regulatory capital of operating Ukrainian banks holding licences to undertake banking operations increased by 2.7 per cent. and amounted to UAH 112 billion, compared to increasing by 9.6 per cent. and amounting to UAH 142 billion and decreasing by 56.4 per cent. and amounting to UAH 82 billion at the same periods of 2016 and 2015 respectively.

On 10 February 2017, the NBU adopted the following criteria for classification of banks in 2017:

- State-owned banks (where State share exceeds 75 per cent.);
- banks controlled by foreign banking institutions; and
- privately-owned banks (where one or more private investors directly and/or indirectly own not less than 50 per cent. of the share capital).

The same criteria for classification applies to banks in 2018.

As at 1 November 2017, 38 banks in Ukraine had foreign capital, of which 18 were fully foreign-owned.

THE BANK

Overview

The Bank is state-owned and headquartered in Kyiv, Ukraine. The Bank was founded by Presidential Decree in January 1992. It was registered by the NBU under registration number 5 on 23 January 1992 and received legal entity ID code 00032112 on the same date. The Bank operates under Ukrainian law. NBU statistics indicate that, as at 30 June 2017, the Bank was the second largest bank in Ukraine in terms of equity capital and loans to customers and the third largest bank in Ukraine in relation to assets and amounts due to customers.

As at 31 December 2017, the Bank had 24 branches and 41 sub-branches located in Kyiv and throughout the other main regions of Ukraine and two representative offices located in London and New York. According to the Bank's records, it had 3,545 employees as at 31 December 2017.

As at the date of this Offering Circular, the Bank is the only Ukrainian bank acting on behalf of the Government as a financial agent with respect to loans from foreign financial institutions originated, borrowed or guaranteed by the State of Ukraine.

The Bank's principal businesses are divided (for management purposes) into the following main business segments:

- corporate banking (including structured finance, corporate lending, factoring, trade finance and its documentary business) and the provision of loans made available via initiatives and different programmes (such as the EDP, EDP-2 and Additional Financing for EDP-2 and EEP with IBRD, UKEEP, SME EEP and TFP with the EBRD, SMEs and Mid-Caps Project with EIB, EEF with GCPF and GTFP with IFC) and services for corporate clients;
- financial institutions and investments (including acting as financial agent for the Government, treasury transactions, securities and investment transactions); and
- retail banking.

One of the principal activities of the Bank is performing the functions of financial agent of the Cabinet of Ministers of Ukraine in connection with obtaining and servicing loans borrowed by the Government or under Government guarantees. In this role, the Bank enters into loan agreements with foreign lenders on behalf of the Government. In certain cases, these loans are entered into for the purpose of funding specific projects or enterprises and in these, the Bank acts as an intermediary, advancing the loan proceeds to the ultimate beneficiaries within Ukraine and otherwise servicing the loan on the basis of separate loan agreements between the Bank and the relevant Ukrainian enterprises.

Historically, the main emphasis of the Bank's commercial operations was the servicing of export-import transactions. However, the Bank diversified its operations over the last decade and currently provides a wide range of banking services, while retaining a strong focus on its traditional activities. The Bank's customer base has also expanded and consisted of 40,399 legal entities as at 31 December 2017.

The Bank's main corporate banking activities comprise lending (including project finance and export-related loans), deposit taking, cash settlement transactions, currency exchange operations, factoring, trade finance and documentary transactions, securities market services and corporate payment cards. The Bank provides its corporate clients with loans and other loan-related products denominated both in hryvnia and foreign currencies, principally U.S. Dollars and euro, including overdraft facilities, revolving lines of credit, bank guarantees and various services related to promissory notes issued by customers or third parties. The Bank's strategy is to focus its corporate lending activities on medium-sized and large companies, export-import operations and SME business.

In 2006, the Bank started to develop its retail operations. From 2006, the Bank has increased its retail banking activities, expanded the range of products and services that it offers and increased its geographical presence in the industrially-developed regions of Ukraine. The Bank had 737,260 individuals as retail customers as at 31 December 2017 compared to 795,342 and 840,960 as at 31 December 2016 and 2015, respectively. The Bank's retail banking activities consist primarily of deposit taking and cash settlement transactions. In retail lending the Bank is focusing mainly on employees and managers of companies (as at 30 June 2017, the Bank's gross carrying amount of retail loans was UAH 1,313 million compared to UAH 1,333 million and UAH 1,303 million as at 31 December 2016 and 2015, respectively). The Bank also offers a wide range of bank card products and services such as debit and credit cards.

The Bank issues credit cards that can be used within the VISA International ("**VISA**") and the MasterCard Worldwide ("**MasterCard**") payment systems. As at 1 October 2017, the Bank had issued more than 724,000 credit cards.

The Bank cooperates with 6 Ukrainian banks, including Oschadbank and Ukrsotsbank, in sharing a unified ATM network. This network had a total of 4,188 ATMs as at 31 December 2017.

Restructuring and Recovery

Government Restructuring Programme and Eurobond reprofiling

As part of its drive to meet the targets set out in the 2015 EFF, the Government formulated a restructuring programme with respect to Ukraine's public sector debt as well as certain debt of Government-owned entities, including the Bank. In July 2015, the Bank reached agreement with its noteholders to reprofile its existing Eurobonds originally scheduled to mature in each of 2015, 2016 and 2018. The new terms included the extension of the maturity dates by a further 7 years together with the inclusion of an amortisation profile and interest rate increases. The reprofiling of these Eurobonds was to contribute to the 2015 EFF balance of payment objective to generate U.S.$15.3 billion savings in public sector financing during the IMF program period.

Recovery and Recapitalisation

Recovery

Following the reprofiling of its Eurobonds, the Bank embarked on a recovery strategy comprising three stages (i) stabilisation; principally to address the impact of the economic crisis by reducing risk exposures, (ii) recovery; principally to achieve a normalisation of the domestic financial environment which would permit the Bank to reduce its market risk exposure and (iii) growth; principally the broadening of the Bank's funding base and increased growth in real sector financing, especially those projects under programmes with international financial organisations.

Stage 1 - Stabilisation

Credit risk

The Bank experienced deterioration in the loan book quality in the during 2015 and to a lesser extent during 2016, and a stabilisation of credit quality in 2017. The Bank introduced enhanced monitoring of its borrowers which included direct interaction with its clients to enable the Bank to differentiate between feasible and non-feasible businesses. In the case of feasible businesses the Bank continued to support these businesses through the implementation of appropriate refinancing of existing exposures, including payment restructuring and/or deferral arrangements. As a result, the gross loan portfolio (adjusted for currency effects) grew only marginally and loans were provided only in exceptional cases.

Cost management

The Bank introduced cost saving measures including an internal reorganisation to reduce personnel numbers, a reduction of the Bank's regional network and centralisation of certain service functions such as IT and accounting.

Risk Management

The Bank completed a reform of its risk management structure. During 2018 and 2019, the NBU plans to gradually introduce Basel III in the banking system with respect to requirements for managing liquidity and capital.

Stage 2 – Recovery

Credit risk

The Bank implemented an optimised credit risk assessment system for new credit exposures to identify credit projects with appropriate credit profiles. In regards to the extension of new credit, the Bank focused on the real sector of economy, specifically exporters, i.e. energy-saving projects and technical modernisation projects, with an emphasis on those projects that would be conducted in cooperation with IFI's.

Currency risk

Although the Bank has limited ability to substantially reduce its economic open foreign exchange position, it has significantly mitigated currency risk exposure, primarily through USD index-linked treasury bills, either purchased or obtained with the proceeds of capital injections from the State.

Stage 3 – Development

Credit risk

The rehabilitation of the Bank's loan portfolio is expected to be completed by the end of 2019. The Bank has and intends to continue to implement appropriate policies with the aim of maintaining credit quality of its portfolio.

Efficiency, profitability

The Bank will aim to re-establish and consolidate its status as a leading financial institution (measured both by profitability and efficiency) as a result of implementation of its policies described above. The Bank has and intends to continue to particularly focus on maximising the cost-efficiency of its operations.

Recapitalisation

The financial crisis and the adverse economic and political conditions in Ukraine resulted in the Bank being in negative equity at the end of 2015 (negative UAH 3,060 million as at 31 December 2015). Principally as a result of successive capital injections by the State, the Bank has returned to positive equity; showing total equity of UAH 5,360 million as at 31 December 2016 and UAH 14,094 million as at 30 June 2017. Between 2015 and 2017, the Bank has received capital injections as follows:

- UAH 5,000 million in December 2014;
- UAH 9,319 million in January 2016;
- UAH 3,022 million in February 2017; and
- UAH 4,700 million in March 2017.

Such capital injections have been the main driver in the knock on impact on the Bank's total assets and net profit.

The Bank's Strengths

The Bank believes that it benefits from the following strengths:

- *Strong Government Support*

  As a 100% State-owned entity, which plays one of the central roles in the Government's policies, the Bank benefits from strong State support. The credit ratings assigned to the Bank are indicative of such support, matching or being similar to the sovereign ratings of Ukraine published by Moody's (the Bank and the sovereign are both assigned a rating of Caa2) and Fitch (the Bank and the sovereign are both assigned a rating of B-).

- *Strong Balance Sheet (Statement of Financial Position) and Improving Portfolio Quality*

  The Bank's balance sheet (Statement of Financial Position) is largely comprised of what it considers to be lower risk assets. As at 30 June 2017, 19.3 per cent. of the Bank's total gross loan book comprised loans made to state-owned entities with the majority of the Bank's total corporate loan book comprising loans made to export-import-oriented corporates. Further, as at 30 June 2017, 42.8 per cent. of the Bank's assets comprised Ukrainian state bonds.

As a result of the economic crisis in Ukraine, the Bank has significant levels of past due or individually impaired loans, however the Bank believes that it has recognised the majority of its problem loans with an allowance for a loan impairment charge as a percentage of the average gross loans decreasing to 5.7 per cent. as at 31 December 2016 from 12.2 per cent. as at 31 December 2015 and further decreasing to 2.1 per cent. (annualised) as at 30 June 2017. Further, the implementation of its strategy to support businesses that have passed the Bank's feasibility tests through the implementation of appropriate refinancing of existing exposures, including payment restructuring and/or deferral arrangements, have contributed to an overall improvement of the quality of the portfolio.

- *Systemic importance to the Government*

  The Bank enjoys a unique position among other banking institutions and state-owned banks in Ukraine. NBU statistics indicate that, as at 30 June 2017, the Bank was the second largest bank in Ukraine in terms of equity capital and loans to customers. In February 2016, the NBU determined the Bank, together with Privatbank and Oschadbank, to be systemically important. To identify systemically important banks, the NBU uses certain indicators of concentration of assets and liabilities compared to respective indicators of the banking system as a whole. The Bank is currently the only Ukrainian bank acting on behalf of the Government as a financial agent with respect to loans from foreign financial institutions originated, borrowed or guaranteed by the State. The Bank also has one of the most extensive networks of foreign correspondent banks among Ukrainian banks and has established correspondent relationships with wide range of banking institutions globally. As such it is systemically important to the Government.

- *The major partner for leading international financial institutions in Ukraine*

  The Bank is the major partner in Ukraine for a number of projects with leading international financial institutions (including the EDP, EDP-2 and Additional Financing for EDP-2 and EEP with IBRD, UKEEP, SME EEP and TFP with the EBRD, SMEs and Mid-Caps Project with EIB, EEF with GCPF and GTFP with IFC). Such projects are aimed at stimulating its clients' foreign economic and innovative activity, in particular with external term funding.

The Bank's Strategy

As defined in its Charter, the Bank's activities are aimed at the creation of favourable conditions for development of the economy, support of national producers, servicing export and import transactions, financial and credit support of structural reforms, enhancement and materialisation of the production and trade potential of export-oriented and import-substituting sectors and enterprises, as well as profit generation for the benefit of the Bank and its shareholder.

The Bank's strategy to achieve the objectives referred to above includes the following key components:

- maintaining its unique position as financial agent of the Government;
- maintaining its position as one of the leading Ukrainian banks in foreign trade finance and other related activities including continuing its international financing initiatives both within the existing framework agreements and by seeking to obtain new credit facilities from international banks;
- maintaining its international reputation, in particular by working with international institutions and export credit agencies;
- diversifying its customer base, with a focus on successful SMEs;
- diversifying its funding sources, including by increasing the volume of customers' deposits;

- diversifying its income, including by supplementing net interest income with increased levels of net fees and commission income; and

- further developing its risk management system, including implementing Basel 2 and subsequently Basel 3 principles.

In early February 2016, the Cabinet of Ministers of Ukraine published the Reform Principles, upon which the Ministry of Finance has based its strategy in relation to the governance and commercialisation of state-owned banks, including the Bank and to resolving key issues negatively affecting their businesses. In the Reform Principles, the Government set out its intention to sell at least 20 per cent. of its shares in each of two state-owned banks (Oschadbank and the Bank). These sales were to be completed in the medium term, however specific dates were not set. On 21 February 2018, the Ministry of Finance published the Updated Strategy. The Updated Strategy indicates that the State will examine opportunities to sell minority shareholdings in the Bank to international financial institutions in the course of 2021 and 2022 and in the long term the State may consider the privatisation of the Bank taking into account banking market conditions (although the Updated Strategy does not specifically cover the period after 2022). See "*Risk Factors - Privatisation of the Bank.*" for further details.

Subsidiaries

Ukreximleasing

The Bank's subsidiary, Leasing Company "Ukreximleasing" ("**Ukreximleasing**"), is wholly-owned by the Bank and was founded at the end of 1997 with its registered office at 11, Vorovskiy Str., Kyiv 04053. As at 30 June 2017, the statutory capital of Ukreximleasing was UAH 7.5 million. Ukreximleasing provides financial and operational leasing services and trades in various products (including repossessed collateral). As at 30 June 2017, Ukreximleasing's assets comprised less than 0.01 per cent. of the Bank's total assets.

Eximleasing

In 2006, the Bank and Ukreximleasing established a subsidiary, Limited Liability Company "Eximleasing Ltd."("**Eximleasing Ltd**."), which began operations in 2006 and as at 30 June 2017 had an authorised share capital of UAH 0.1 million. The company provides financial and operational leasing services to enterprises of different types of ownership and business areas. It finances many types of fixed assets, including cars and trucks, railway transport, agricultural and special and operating machinery.

Head Office and Branches

As at 31 December 2017, the head office of the Bank consisted of 44 divisions and 7 separate departments, a Group of advisors to the Chairman of the Board, Office of the Chairman of the Board and Occupational Safety and Health Division.

Upon its establishment in 1992, the Bank's network included the head office in Kyiv and regional branches in Dnipropetrovsk, Lviv, Odessa, Uzhgorod, Kharkov, Izmail, and Yalta. As at 31 December 2017, the Bank had 24 branches and 41 sub-branches, reflecting the increased scope of the Bank's business and its geographical coverage. The branch network offers a wide range of banking services including loans, documentary transactions, securities operations, foreign currency transactions, settlement and payment transactions and international payment card operations.

The Bank's branch network strategy is focused on the economic regions of Ukraine that the Bank believes has the highest economic potential. Currently, the Bank has a presence in all of the regional centres of Ukraine, except for the Autonomous Republic of Crimea.

In managing its branch network the Bank gives careful consideration to the current market conditions and prevailing economic climate. The Bank opens branches in carefully selected promising regions to ensure the efficient servicing of customers strategically important to the Bank.

The Bank has two representative offices, one in London (registered with Companies House) and one in New York City (governed by the U.S. Federal Reserve and holding a New York state banking licence). These offices perform representative functions and seek to develop new relationships and enhance the existing relationships with international financial institutions, banking institutions and investment funds.

Correspondent Banks

The Bank has one of the most extensive networks of foreign correspondent banks among Ukrainian banks and has established correspondent relationships with a wide range of banking institutions globally.

As at 30 June 2017, the Bank conducted international settlements via 47 NOSTRO accounts in different currencies covering financial institutions from 110 countries across the world.

The present correspondent network allows the Bank to maintain its relationships with counterparts throughout the world, including in Western, Central and Eastern Europe, North America, Asia, Africa and the Middle East in order to satisfy customers' needs in various spheres of banking business areas.

Licences

The Bank was established by Decree of the President of Ukraine No.29 dated 3 January 1992 following the independence of Ukraine in 1991. On 23 January 1992, the Bank was registered by the NBU in the state register of banks under the registered number 5 and was also registered as a legal entity by the State Administration and received legal entity ID code 00032112. The Bank is regulated and supervised by the NBU.

On 5 October 2011, the Bank's banking licence was renewed by the NBU under registered number 2. The Bank also received a General Currency Exchange Control Licence allowing it to perform the transactions listed in the schedule to licence number 2-2 issued by the NBU on 18 November 2016. The Bank has 7 licenses issued by the State Commission on Securities and the Stock Market of Ukraine, which permit it to conduct professional activity in the stock market.

Pursuant to its purpose and based on the Bank's Charter approved by Resolution of the Cabinet of Ministers of Ukraine number 1250 dated 10 August 2000, as amended, the Bank may:

- attract loans and deposits and allocate the raised funds in the local and international markets; and
- conduct investment activities in the local and international market.

Pursuant to its banking licence, the Bank may provide the following banking services:

- open a deposit account in currency and precious metals for both legal entities and individuals;
- open and service current (correspondent) customer accounts, including precious metal accounts; and
- allocate funds and precious metals to deposit accounts, including current accounts, in its name, under its own conditions and at its own risk.

The Bank is entitled to provide the following financial services:

- issue payment documents, payment cards, traveller cheques and/or service thereof, clearing, other types of settlements;
- custody activity;
- currency exchange;
- financial leasing;
- issue of guarantees and suretyships;
- transfer of funds;
- saving pension fund;
- factoring;

- property management for the purpose of construction projects/ real estate transaction financing pursuant to the Law of Ukraine on Financial and Credit Mechanisms and Property Management in Housing Construction and Real Estate Operations; and

- mortgage asset transactions in order to issue mortgage-backed securities.

The Bank is also entitled to make transactions related to:

- investments;

- the issuance of its own securities;

- lottery issue and distribution;

- safekeeping and rent of individual banking safe deposit box;

- cash collection and transportation of currency valuables; and

- advisory and information services in respect to banking and other financial services.

The Bank is authorised to perform the following professional activities in the stock market:

- trade in securities — underwriting;

- depository activity — depository activity as securities custodian;

- trade in securities — dealership;

- trade in securities — brokerage;

- asset management services to pension funds;

- asset management services to joint investment funds; and

- securities trading – securities management.

Memberships

The Bank is a member of the "VISA" and the "MasterCard payment systems". In addition, the Bank is a member of the International Union of Credit and Investment Insurers — Prague Club (Bern Union), the Global Network of Export-Import Banks and Development Finance Institutions ("**G-NEXID**"), the Independent Bankers Association of Ukraine, the Ukrainian Interbank Currency Exchange ("**UICE**"), National securities depositary of Ukraine, Stock Exchange "Perspektiva", Stock Exchange "Ukrainian Exchange", the Universal Commodity Exchange Kontractovy Dom UMVB, the First Stock Trade System ("**PFTS**"), the Stock Partnership Association, Association "UkrSWIFT", Credit Bureau, Professional Association of Registrars and Depositories, the SWIFT system and the Ukrainian Interbank Payment Systems Member Association ("**EMA**"), European Business Association ("**EBA**"), the Ukrainian National Mortgage Association ("**UNIA**") and the JSC "Settlement Center", the Association "Ukrainian Stocks Traders" ("**AUST**"), Factors Chain International ("**FCI**"), Association "Ukrainian Union of Payment Market Subscribers". From 29 March 2010, the Bank became the sole Ukrainian bank to be a member of the "American Express" ("**AmEx**") sales and services card networks.

Business Segments

The Bank divides its activities (for management purposes) into three main business segments:

1. Corporate Banking (including corporate lending, project finance, export-related loans, factoring, trade finance and documentary business (including letters of credit and guarantees) and structured finance);

2. Interbank and Investments Business (including acting as Financial Agent of the Government, treasury transactions, securities transactions and investments and multilateral programmes);

3. Retail Banking (including customer term deposits, customer current accounts, cash and settlement services, foreign exchange transactions, payment card transactions, loans to individuals and small and medium-sized businesses).

Corporate Banking

Corporate Lending

Net loans to corporate customers represented 37.8 per cent. of the Bank's total assets as at 31 December 2015, 35.2 per cent. as at 31 December 2016 and 32.5 per cent. as at 30 June 2017. Net loans to corporate customers constituted 97 per cent. of the Bank's loans to customers as at 31 December 2015, 96.6 per cent. as at 31 December 2016 and 96.4 per cent. as at 30 June 2017. As at 30 June 2017, the majority of the Bank's loan portfolio continued to be comprised of loans to finance export-import operations.

The size of the Bank's gross corporate loan portfolio increased by UAH 7,931 million from UAH 91,935 million as at 31 December 2015 to UAH 99,866 million as at 31 December 2016 mainly due to exchange valuation adjustments. As at 30 June 2017, the Bank's gross corporate loan portfolio decreased to UAH 98,487 million as a result of the Bank's conservative lending policy in the first six months of 2017.

The Bank's corporate lending activities include the provision of loan and credit facilities and other credit related products for corporate clients, denominated both in hryvnia and foreign currencies, principally in U.S. Dollars and euros. While the Bank offers loans to all types of Ukrainian businesses, its priority clients are large and medium-sized enterprises (including sector and regional leaders) that are involved primarily in export and import-related business. The Bank is also focussing on developing its SME client base.

Long-term loans (i.e. those with a maturity of at least one year) represent a significant share of the Bank's loan portfolio (62.9 per cent. as at 30 June 2017), reflecting the Bank's focus on financing investment projects. The Bank extends loans to enterprises in the key export-oriented sectors of economy with sustained rates of growth as well as enterprises in the import substituting sectors producing goods for which there is demand in Ukraine such as machine building and processing industries, construction and printing industries, light industry and transport.

As part of its lending activities, the Bank gives priority to projects envisaging utilisation of energy saving technologies, production modernisation and state of the art technologies in light of the need for the Ukrainian businesses to implement energy saving technologies in the wake of increases in the prices of gas and oil. See "*Risk Factors — Risks Relating to Ukraine — Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other Western economies, would be likely to have adverse effects on the economy as well as the political stability of the country*".

For a description of the Bank's loan portfolio by industry sector, see "*Selected Statistical Data and Other Information — Loan Portfolio*".

Trade Finance and Documentary Business

The Bank's focus on developing its trade finance activities is driven by the needs of its clients who are active in foreign trade. The Bank's international experience and reputation has enabled it to further facilitate trade finance operations utilising its credit lines opened by foreign financial institutions. The Bank applies various types of trade finance products and schemes for supporting the export-import business of its clients, offers different instruments of trade finance such as documentary letters of credit, all types of bank guarantees and stand-by letters of credit.

In this regard, the Bank's excellent working relationships with international financial institutions, such as the EBRD or the IFC, have been a key factor that enabled the Bank to continue servicing the needs of its clients in difficult market conditions and to keep its leading position in trade finance.

Export Credit Finance

Based on the need of Ukrainian companies for medium and long-term financing to maintain the development and modernisation of production facilities, and in the light of the lack of long-term financing options in the local credit market, the Bank intends to continue its international financing initiatives both within the existing framework agreements and by seeking to obtain new credit facilities from international banks.

The Bank is active in the development of credit relationships both with its former partners and new foreign financial institutions in order to attract additional medium and long-term funding for financing of Ukrainian enterprises. The Bank has been recognised as a direct borrower/guarantor by a number of foreign ECAs including EULER HERMES (Germany), EKF (Denmark), EKN (Sweden), GIEK (Norway), CESCE (Spain), COFACE (France), OekB (Austria), ONDD (Belgium), SACE (Italy), SERV (Switzerland), MEHIB (Hungary), USExim (USA), JBIC (Japan), EDC (Canada), HBOR (Croatia), EGAP (Czech Republic), Eximbanka SR (Slovak Republic), KUKE (Poland), Kexim (Korea), SINOSURE (China) and others.

Since 2003, the Bank has entered into medium and long-term loan agreements with customers whereby funds were provided by foreign banks and guaranteed by ECAs. As at 30 June 2017, U.S.$400 million (or equivalent in other currencies) of such funds had been provided since 2003, of which U.S.$21.1 million or equivalent was then outstanding. These loans were used to finance imports of industrial and agricultural equipment from numerous international suppliers.

Interbank and Investments Business

Acting as Financial Agent

The Bank has acted as Financial Agent of the Government since 1992. In this capacity, the Bank acts on behalf of the Government with respect to loans arranged by the Bank from foreign financial institutions under State guarantees within the framework of agreements entered into by the Government and other foreign governments. The loan proceeds are advanced to various Ukrainian enterprises on the basis of separate loan agreements between the Bank and the relevant Ukrainian enterprise. The proceeds of these loans are used to finance the acquisition of goods and services from the lender's country.

The Bank's appointment as Financial Agent is set out in an agency agreement dated 19 September 1996 pursuant to which the Bank acts as Financial Agent in relation to the above described activities. However, all obligations under the loans and related risks are with the Government.

As at 30 June 2017, the Bank had completed approximately 150 loans with sovereign guarantees in its capacity as Financial Agent within the framework of 13 lines of credit (including from Germany, the United States, France, Japan, Switzerland, Italy and Spain) and 2 loan programmes. As at 30 June 2017, the total volume of loans arranged since 1992 was U.S.$2.68 billion.

In addition to its role as Financial Agent, as a state-owned bank, the Bank is a member of almost all intergovernmental commissions for economic and trade co-operation.

Treasury Transactions

The Bank has a wide range of treasury products it offers to its customers including foreign exchange operations in local and international markets. One of the key objectives of the Bank in the field of foreign exchange transactions is to retain its position among leading operators in servicing Ukrainian companies involved in export and import businesses.

During the first six months of 2017, the volume of treasury transactions in money markets and foreign exchange amounted to UAH 177 billion compared to UAH 345 billion and UAH 385 billion in the years ended 31 December 2016 and 2015, respectively. The Bank expects the inter-bank transaction to grow at a slow pace in the foreseeable future as a result of gradual restoration of transactional activity by customers and correspondents banks, although it is possible that any adverse developments may result in further decline in the volume and value of the transactions undertaken in the market. The Bank aims to retain its leading position in foreign exchange operations.

Securities Transactions and Investments

The Bank is involved in all segments of the Ukrainian stock market and is an active participant in the market for Ukrainian State bonds and corporate bonds.

As at 30 June 2017, the Bank's securities portfolio was UAH 73,677 million, compared to UAH 72,397 million as at 31 December 2016 and UAH 51,347 million as at 31 December 2015.

The following table shows a breakdown of the Bank's securities portfolio as at 31 December 2015, 31 December 2016 and 30 June 2017:

	31 December		30 June
	2015	**2016**	**2017**
	(UAH thousands) *(audited)*		*(UAH thousands)* *(unaudited)*
Ukrainian state bonds designated at fair value through profit and loss	9,924,610	24,064,110	27,213,686
Corporate shares available-for-sale	11,690	11,690	16,374
Corporate bonds available-for-sale	2,388,565	2,018,739	1,583,545
Municipal bonds available-for-sale	1,628,039	-	-
Ukrainian state bonds available-for-sale	37,163,276	46,163,120	44,745,153
Ukrainian state bonds held to maturity	230,912	139,098	117,827
Total	**51,347,092**	**72,396,757**	**73,676,585**

The size of the gross securities portfolio as a percentage of the Bank's total assets as at 30 June 2017 was 43.7 per cent.

In addition to debt securities, the Bank invests in shares of certain Ukrainian companies. Investments in equities accounted for 0.02 per cent. of the total gross amount of the Bank's securities portfolio as at 30 June 2017.

Multilateral programmes

IBRD Export Development Project (EDP, EDP2 and additional financing for the EDP2)

In 1997, the Bank became the first and the only Ukrainian bank to cooperate with the IBRD, a member of the World Bank, under the IBRD's Export Development Project. Funds available under the IBRD's EDP amounted to U.S.$70 million.

The IBRD's EDP, successfully completed in 2004, is a special investment programme that offers credit, technical and informational assistance to Ukrainian exporters. Based on the results shown by the IBRD's EDP, the EDP2 programme was approved by the IBRD Board of Executive Directors in July 2006 in the amount of U.S.$154.5 million. The primary objective of EDP2 is to provide medium and long-term working capital and investment finance to private exporting enterprises using financial intermediation to involve pre-selected Ukrainian commercial banks to further fund investment needs and working capital of Ukrainian privately-owned exporting companies. Upon ratification of the Guarantee Agreement between Ukraine and the IBRD (in the form of the Law of Ukraine on 1 December 2006 No. 423-V), the loan became available for use by the Bank on 20 March 2007.

The EDP2 programme was amended in June 2009 to provide additional flexibility and to increase its effectiveness in light of the global financial crisis as the Bank was allowed to extend sub-loans out of EDP2 funds directly to existing clients who were eligible exporting companies. The loan proceeds supported investment and working capital requirements of over 30 eligible Ukrainian exporters thereby ensuring survivability during the global financial crisis and an increase in export revenues.

In August 2011, the Board of Executive Directors of the World Bank approved the additional financing for the EDP2. On 4 October 2011, both documents (the Guarantee Agreement between Ukraine and the IBRD and the Loan Agreement between the Bank and the IBRD) were signed. The Ukrainian Parliament ratified the Guarantee Agreement on 21 December 2011 pursuant to the Law of Ukraine No. 4208-VI. On 31 January 2012, the loan became available to the Bank. The additional financing for the EDP2 was provided for the period of up to 30 years to facilitate investment projects undertaken by Ukrainian exporters as well as to finance the working capital of exporters. The full amount of the loan (U.S.$150.0 million) was disbursed. The implementation of the additional financing for EDP2 was completed on 31 December 2014.

The participation in EDP2 and additional financing for EDP2 allowed Ukrainian exporting enterprises to renew their fixed assets, modernise production facilities, improve product competitiveness, enter new markets, and diversify geographical and commodity structure of exports. The successful engagement of most participating banks in EDP2 contributed not only to the development of export potential of their sub-borrowers but also improved the ability of the Ukrainian banking sector to provide financial resources and the expansion of the range of private lending products of financial institutions in Ukraine.

IBRD Energy Efficiency Project (EEP)

In order to meet the growing demand for sustainable energy financing in Ukraine, on 10 June 2011 the Bank signed a loan agreement with the IBRD under IBRD's Energy Efficiency Project (the "**EEP**") in the amount of U.S.$200 million guaranteed by the State of Ukraine. The Project was aimed at financing energy efficiency investments in the industrial and municipal sectors in Ukraine. The main objective of the Project was to provide medium and long-term financing to Ukrainian companies to implement energy efficiency investments, either directly or via pre-selected participating banks satisfying a set of the Project eligibility criteria. The Project also targets the improvement of capacity of the local banking system to further develop energy efficiency financing.

The EEP was ratified on 4 October 2011 pursuant to the law "*On Ratification of the Guarantee Agreement (EEP) between Ukraine and the IBRD*" No.3812-VI. On 9 November 2011, the EEP became effective.

The full amount of the loan (U.S.$200 million) was disbursed. The implementation of the EEP was completed on 31 March 2017, which resulted in the implementation of 121 subprojects under the EEP with over 75 participants across various sectors of Ukraine. Additionally, five municipal subprojects, including four ESCO type, were financed.

The World Bank confirmed that the EEP has been one of the most successful investment lending projects of such a scale implemented in Ukraine over the past several years. The total amount of the loan was fully disbursed to reach over 80 beneficiaries. The total amount of investments accelerated by the Project amounted to US$539 million, thereby creating more than 2.7 times leverage over the loan amount. The project has achieved nationwide coverage, with subprojects being implemented in 20 out of 24 regions of Ukraine. Throughout the course of the implementation, the project has been a key tool for energy efficiency finance in Ukraine.

IBRD Access to Long Term Finance Project (ALTF)

The Board of Executive Directors of the World Bank approved an extension to a loan to the Bank under a sovereign guarantee provided by the State of Ukraine in an amount equal to U.S.$ 150 million and with an implementation term of up to 35 years for the Access to Long Term Finance Project ("**ALTF**"). On 26 June 2017, the Bank and IBRD signed certain documents including a guarantee agreement and a loan agreement relating to the ALTF. Pursuant to these documents, the Bank acts as the direct borrower under the project. The guarantee agreement is currently subject to ratification by the Ukrainian Parliament.

ALTF is aimed at improving access to long and medium term finance for export-oriented SMEs for the purposes of financing investment projects and working capital requirements of such entities.

According to the project documentation, the Bank is expected to grant medium and long-term loans, both for investment projects financing and working capital needs, aimed at the development of export potential of Ukrainian SMEs both directly and by means of on-lending through Ukrainian commercial banks. The project's final beneficiaries and participating banks will be selected in accordance with the eligibility criteria agreed upon with IBRD.

EBRD UKEEP

In April 2007, the Bank and the EBRD signed a Loan Agreement on UKEEP in the amount of U.S.$50 million. The funds from this loan were used for financing investment projects of private Ukrainian companies aimed at decreasing energy consumption and introducing modern technologies that will improve the competitive position of the borrowers.

Eligible sub-projects within this programme are industrial energy efficiency projects facilitating the reduction of energy consumption, including electricity or fuel consumption; and renewable energy resources projects (using hydropower, wind power, solar energy, bio fuels and geothermal energy).

Under UKEEP, considerable attention is paid to environmental protection.

Based on an arrangement with the EBRD, international consultants funded by the Swedish and Austrian governments and working under UKEEP provide free technical assistance to the customers of the Bank covering in-depth technical analysis of projects, energy audit of enterprises and/or support in choosing the most efficient way of investment in updating or creating new production facilities.

Disbursements of UKEEP funds commenced in April 2008. In December 2008, the EBRD increased the UKEEP loan facility to the Bank by U.S.$50 million, designated for sustainable energy sub-projects to be made available to private Ukrainian companies. The full amount of the loan was disbursed. The loans were repaid according to the Loan Agreements in August 2014.

EBRD SME and the Energy Efficiency Programme

In February 2012, the EBRD and the Bank signed a new U.S.$50 million credit facility supported by the European Union aimed at financing eligible sustainable energy investments such as energy efficiency and renewable energy projects by lending to SME sub-borrowers. The full amount of the loan was disbursed and more than 100 sub-projects were financed.

GCPF

In February 2012, the Bank signed a U.S.$30 million loan with GCPF to provide sub-loans to Ukrainian companies investing into energy efficiency and small-scale renewables. The full amount of the loan was disbursed. 13 sub-projects were financed under the GCPF loan.

EIB Loan for SMEs & Mid-Caps

In December 2012, the Bank and EIB signed a Loan Agreement in the amount of EUR 100 million to be directed to SME & Mid-Caps projects as well as energy efficiency and environmental projects of the customers of the Bank. The full amount of the loan was disbursed. More than 60 sub-projects were financed under the Project, including the re-employment amounts repaid and prepaid by the sub-borrowers.

EIB APEX Loan for SMEs and Mid-Caps Project

In December 2014, Ukraine and EIB signed the Finance Contract (APEX loan for SMEs and Mid-Caps Project) in the amount of EUR 400 million. The borrower is Ukraine represented by the Ministry of Finance of Ukraine and acting in conjunction with the Bank as the agent appointed under the Project.

The Ministry of Finance of Ukraine in cooperation with the Bank shall direct funds of the EIB Loan to the Ukrainian commercial banks to finance private sector development projects, primarily those of small and medium-sized businesses, as well as social and economic infrastructure, energy efficiency and environment protection projects. The Loan's long term funds will allow participating banks to finance investment projects and satisfy working capital needs of their clients. The active stage of selection of banks for participation in the Project was launched in March 2017.

EBRD Trade Facilitation Programme plus IFC Global Trade Finance Program

Offering a whole range of international banking services, the Bank is a proactive player in trade finance and continues to hold leading positions in the Ukrainian banking market in the area of documentary business and trade finance. This is driven by needs of the Bank's customers active in foreign trade and by the interest of foreign banks in conducting trade finance transactions in partnership with the Bank.

The Bank is a member of EBRD Trade Facilitation Programme since 2007 and IFC Global Trade Finance Program since 2009. The current limit applicable within the framework of the EBRD's TFP is U.S.$270 million and U.S.$80 million in the framework of IFC's GTFP. The programmes aim to promote foreign trade to, from and amongst the countries of operations of EBRD and IFC by offering a range of products to facilitate this trade.

The programmes jointly help the Bank to support its customers' international transactions, enable the Bank to play a proactive role in the local market, advance relationships with the Bank's key correspondent banks and establish new partnership relations.

Retail Banking

As a result of cost saving measures and the consolidation of certain operations in response to economic crisis in Ukraine, the Bank has substantially decreased the amount of sales points and the product lines available through its retail business during 2016 and 2017. In particular, the Bank excluded a number of banking products from the range of settlement and cash services available to individuals from the Bank. namely, (i) transactions with personal cheques, travellers' cheques and TaxFree cheques, (ii) sale of NBU commemorative coins with the Finance and Credit Bank (which is currently undergoing liquidation proceedings) on an agency basis, (iii) sale of NBU investment coins, (iv) co-operation with the Unistream international money transfer system (Russia), and (v) individual deposits in banking metals. The Bank has implemented updated policies with respect to offering retail products, introduced new credit card products with enhanced technology and safety aspects and continues to optimise its transactions and services to reduce costs.

Notwithstanding the substantial decrease in number of sales points, the Bank continues to service individual customers' transactions and derive income therefrom. During the first half of 2017, and as a result of services rendered to individuals, the Bank received UAH 109 million in fee income, which represented a 5.2 per cent. increase compared to the same period of 2016.

Individual Customer Term Deposits

The Bank offers its retail clients a wide range of deposit products and is, according to NBU statistics, currently the third largest bank in Ukraine by individuals' term deposits with a market share of 5.5 per cent. as at 30 June 2017. Individuals' term deposits constituted 13.1 per cent. of the Bank's total liabilities as at 30 June 2017. The amount of term deposits, despite the small number of the Bank branches, reflects the strength of its retail business segment.

The Bank's term deposits (in all currencies) from individuals decreased by 2.1 per cent. within the twelve month period ended 31 December 2016 from UAH 21,432 million as at 31 December 2015 to UAH 20,982 million as at 31 December 2016. During the first half of 2017, the amount of term deposits from individuals decreased further by 3.8 per cent. to UAH 20,189 million as at the 30 June 2017, although there was an increase of term deposits in U.S. Dollars in the first half of 2017.

Cash and Settlement Services

The Bank earns fee and commission income from both corporate and retail customers for a wide range of cash settlement services that include both traditional and innovative banking products. This allows the Bank's clients to meet their cash settlement needs and for the Bank to diversify its sources of income. The main cash and settlement services offered by the Bank include the opening, closing and assigning of accounts, cash servicing, maintenance of accounts, providing information on the account status, providing consolidated statements of customers' accounts and transfers into hryvnia and foreign currencies.

Individual Customer Current Accounts

The Bank is able to offer its customers current accounts denominated in both hryvnia and in foreign currencies and access to a wide range of cash settlement services. Retail clients are able to take advantage of the Enter EXIM® (e-banking systems), which offers the Bank's customers (both corporate and private clients) remote access and management of their accounts via the Internet.

Concurrently, the Bank succeeded in optimising its product line and refrained from rendering a number of non-income producing services and products, which were not in popular demand by individual customers.

During 2016, individuals' current account balances increased by 17.1 per cent. from UAH 3,003 million as at 31 December 2015 to UAH 3,517 million as at 31 December 2016. During the first half of 2017, individuals' current account balance increased by 10.1 per cent. to UAH 3,872 million as at 30 June 2017. Individuals' current accounts represented 2.5 per cent. of the Bank's total liabilities as at 30 June 2017.

Money transfers

The Bank offers international money transfer services through MoneyGram and Western Union systems. MoneyGram International Money Transfers, the world's money transfers leader, twice recognised the Bank as the best Ukrainian bank in terms of quality of MoneyGram money transfer services.

In 2009, the Bank introduced a service whereby the holders of VISA cards issued by the Bank are able to use the VISA Direct service to transfer funds through the ATMs and transaction terminals of the Bank to any other holder of a VISA card issued by one of the other Ukrainian banks. The Bank has improved this service with the implementation of Fast Funds functionality in 2012 which allows clients to receive their money instantly.

In 2014, the Bank introduced EximCash money transfer system in Ukraine (currency of transfer is UAH) for individuals without opening an account.

Payment Card Transactions

The Bank is a member of MasterCard Worldwide and Visa International payment systems, and the membership allows the Bank to provide an entire range of card services to its customers. Since 1998 the Bank has also acted as a settlement bank for MasterCard Worldwide in Ukraine.

As at 30 June 2017, the number of MasterCard and Visa payment cards issued by the Bank reached 727 thousand cards. The Bank operates a network of 681 ATMs.

The turnover on payment cards issued by the Bank constituted UAH 24.8 billion in 2016 and UAH 13.9 billion during the first half of 2017.

The Bank provides advisory services to 6 banks on joining MasterCard and Visa payment systems, and acts as a representative and guarantor of the banks in respect of the payment systems. As at 30 June 2017, the Bank had 6 affiliated banks. The processing services provided by the Bank to affiliated banks include powerful hardware and software transaction processing solution, database support, generating reports at request of affiliated banks, on-line monitoring of fraudulent transactions, 24x7 customer support and other functions. Since 2016 the Bank has offered the following services to affiliated banks: Visa PayWave and MasterCard PayPass card issue, HCE-based mobile application for NFC payments, funds transfer between cards issued by the affiliated bank in ATMs of such affiliated bank and automatic regular payments from cardholders' accounts, on-line card account replenishment through POS terminals at cash desks of affiliated banks. The issuance of 3D Secure MasterCard Issuing and Verified by Visa (VbV) enabled cards as well as credit products with a grace period are being prepared for launch for affiliated banks.

In order to mitigate fraud risk, the Bank stopped the issuance of magnetic stripe cards in 2014 and migrated to chip cards only. In 2017, the Bank also expanded its range of MasterCard PayPass and Visa PayWave payment card products. As at 30 June 2017, the Bank had issued more than 309,000 contactless cards.

Furthermore, in 2014 the Bank introduced 3D Secure Verified by Visa (VbV) on-line payment technology in order to offer cardholders a higher level of security when making payments for goods and services on-line.

In 2016, the Bank together with Visa Int. launched the first in Ukraine HCE based mobile application EXIMpay for NFC payments.

In 2017 the Bank continued to develop the Electronic Student ID Card product that is both a student ID and a fully functional Visa payment card. As at 30 June 2017 the Bank had issued more than 27,000 cards.

Over UAH 783 thousand in 2016 and more than UAH 472 thousand during the first half of 2017 was transferred to 32 children's hospitals accounts throughout Ukraine under United for Child's Life ("**Разом за життя**") a unique charity programme settled by the Bank. These funds are used by hospitals for purchasing much needed medical equipment, which helps to save hundreds of children's lives. One of the ways of participating in the programme is for customers to request special "United for Child's Life" Visa cards. A fixed amount from each transaction completed by such card is transferred in favour of the children's department of the National Cancer Institute. As at 30 June 2017, the number of active "United for Child's Life" cards exceeded 13 thousand. The charity project implementation is a part of a socially oriented strategy of the Bank.

In 2015, the Bank launched the charity programme "United for Defender's Life" ("**Разом за життя захисників**") and started issuing special affinity MasterCards - a fixed amount from each transaction completed by such card is set aside as a medical provision for wounded soldiers. The Bank also provided its money transfer services to the Army of Ukraine free of charge through the Bank's ATM network. Over UAH 550 thousand in 2016 and more than UAH 152 thousand during the half of 2017 was collected through this transfer service.

In 2017, the Bank continued to service merchants in Ukraine which accept American Express payment cards as payment for goods and services. The Bank is the only bank acquiring American Express payment cards in Ukraine and it is responsible for processing, settlement and information services to merchants, which accept American Express payment cards.

Lending to individuals

The Bank has a fairly conservative policy for retail lending. During 2016 through to 2017, the Bank's priority in the retail segment of its business was to increase the availability of unsecured credit lines (for consumer purposes) applicable to cards issued by the Bank within the framework of salary projects. The Bank was also engaged in the implementation of the State Target Economic Programme on the Implementation of Energy Efficiency Mechanisms and Support for Energy Saving in Ukraine.

In May 2017, the Bank launched a "Credit Card" product for its existing cardholders, which included additional benefits such as grace periods and special tariffs in order to further attract and maintain customers as well as improve the prospects of the Bank increasing its revenues as compared to the standard credit line.

Small and medium-sized business

During the period of 2016 - 2017, the Bank continued to strengthen its position in the Ukrainian financial market for SME business operations. Banking activities in this segment were focused on sustainable growth of the Bank's customer base, as well as widening of banking operations and services for SME customers.

According to its mission, the Bank gives lending priority to solvent SME customers with foreign economic activities. Financing for such customers' projects is provided out of the Bank's standard bank loan products, own funds and under the programmes of foreign and international financial institutions (e.g., the IBRD energy efficiency project, EBRD energy efficiency program, and EBRD SME lending program, European Investment Bank programmes for SME).

Seeing significant development potential in SME customers, the Bank dynamically improves and adapts its products and services to suit its customers' needs, activities and market conditions. As a result of these measures, the Bank was able to steadily increase the volume of banking transactions with SME customers during the period of 2016 - 2017.

The gross loans to SME customers increased by 4.9 per cent. in 2016 to UAH 2,822 million as at 31 December 2016, and by 1.5 per cent. in the first half of 2017 to UAH 2,865 million as at 30 June 2017.

The Bank's term deposits from SME increased by 9.4 per cent. within the twelve month period ended 31 December 2016 from UAH 2,994 million as at 31 December 2015 to UAH 3,274 million as at 31 December 2016. During the first six months of 2017, the amount of term deposits from SME increased by 22.9 per cent. to UAH 4,026 million as at 30 June 2017.

During 2016, SME clients' current account balances increased by 23.1 per cent. from UAH 4,436 million as at 31 December 2015 to UAH 5,460 million as at 31 December 2016. During the first six months of 2017, SME clients' current account balance decreased by 3.4 per cent. to UAH 5,275 million as at 30 June 2017.

Legal Proceedings

From time to time and in the normal course of business, the Bank is party to certain legal proceedings. The Bank's management believes that currently there are no legal proceedings pending or threatened, which could, individually or in the aggregate, have a material adverse effect on the Bank.

Funding

The main sources of the Bank's funding are term deposits and current accounts of corporate and individual customers and international borrowings, comprising the Bank's Eurobonds and funds raised from international financial institutions. In order to manage its liquidity position in an efficient manner, the Bank attracts short term interbank loans and clients fund in hryvnia and foreign currency.

Customers' on demand and term deposits accounted for 58.3 per cent. of the Bank's total liabilities as at 30 June 2017, compared to 55.3 per cent. as at 31 December 2016 and 54.9 per cent. as at 31 December 2015.

During 2016, amounts due to customers increased by 8.2 per cent. from UAH 79,318 million as at 31 December 2015 to UAH 85,789 million as at 31 December 2016 mainly due to inflow of funds from legal entities and budget funds.

During the first half of 2017, amounts due to customers increased by 4.8 per cent. to UAH 89,898 million as at 30 June 2017, primarily due to inflow of funds from legal entities and budget funds.

The following table sets out the composition of the Bank's customer accounts portfolio as at 31 December 2015, 31 December 2016 and 30 June 2017:

	31 December		30 June
	2015	2016	2017
		(UAH thousands)	
	(audited)	*(audited)*	*(unaudited)*
Legal entities and budget funds, total	**54,883,541**	**61,290,056**	**65,836,380**
Current accounts	18,240,256	22,071,641	25,930,184
Term and pledge deposits	36,643,285	39,218,415	39,906,196
Individuals, total	**24,434,402**	**24,498,896**	**24,061,846**
Current accounts	3,002,802	3,516,537	3,872,469
Term deposits	21,431,600	20,982,359	20,189,377
Total amounts due to customers	**79,317,943**	**85,788,952**	**89,898,226**

The following table sets out the Bank's customer account portfolio by industry sector:

	31 December 2015		31 December 2016		30 June 2017	
	(UAH thousands) (audited)	*(%)*	*(UAH thousands) (audited)*	*(%)*	*(UAH thousands) (unaudited)*	*(%)*
Agriculture and food industry	27,263,219	34.4	29,167,421	34.0	30,027,426	33.4
Individuals	24,434,402	30.8	24,498,896	28.6	24,061,846	26.8
Trade	6,234,324	7.9	7,018,218	8.2	5,718,455	6.4
Budget organisations	4,699,932	5.9	4,424,952	5.2	5,397,351	6.0
Mechanical engineering	1,896,796	2.4	3,364,349	3.9	3,291,937	3.7
Transport and communications	2,086,555	2.6	2,558,458	3.0	2,573,115	2.9
Professional, scientific and technical activities	2,003,401	2.5	2,344,970	2.7	2,733,533	3.0
Finance	1,820,697	2.3	2,161,779	2.5	2,403,876	2.7
Construction	1,259,118	1.6	1,254,642	1.5	885,860	1.0
Chemical industry	421,939	0.5	901,909	1.1	650,319	0.7
Metal processing	446,645	0.6	849,841	1.0	622,315	0.7
Information and telecommunications	779,643	1.0	759,109	0.9	913,834	1.0
Production of construction materials	219,211	0.3	750,354	0.9	469,524	0.5
Power engineering	1,130,043	1.4	728,272	0.7	2,108,699	2.3
Real estate	365,163	0.5	564,285	0.7	625,771	0.7
Metallurgy	122,606	0.2	444,476	0.5	184,756	0.2
Extractive industry	527,598	0.7	394,394	0.5	3,231,398	3.6
Processing	344,104	0.4	306,911	0.4	388,649	0.4
Health protection	160,222	0.2	302,412	0.3	273,495	0.3
Wood processing	251,457	0.3	204,238	0.2	220,256	0.2
Education	99,314	0.1	187,823	0.2	167,078	0.2
Personal services	154,244	0.2	180,711	0.2	208,231	0.2
Production of rubber and plastic goods	313,646	0.4	85,669	0.1	96,589	0.1
Pulp and paper industry	92,645	0.1	83,619	0.1	70,716	0.1
Light industry	94,774	0.1	75,063	0.1	76,435	0.1
Hotels and restaurants	99,974	0.1	51,821	0.1	142,358	0.2
Other	1,996,271	2.5	2,124,360	2.4	2,354,404	2.6
Total amounts due to customers	**79,317,943**	**100.0**	**85,788,952**	**100.0**	**89,898,226**	**100.0**

As at 30 June 2017, inter-bank funding (including amounts due to credit institutions and to the NBU) amounted to 16.0 per cent. of the Bank's total liabilities, compared to 18.0 per cent. as at 31 December 2016 and 15.4 per cent. as at 31 December 2015.

As at 30 June 2017, Eurobond funding accounted for 23.4 per cent. of the Bank's total liabilities as compared to 24.2 per cent. as at 31 December 2016 and 22.9 per cent. as at 31 December 2015.

Banking Technologies and Automated Banking Transactions

The Bank's information technology ("**IT**") systems are designed to support major business functions and to provide operational support to the Bank's staff, management, partner banks as well as to its corporate and retail customers.

Under the increasing role of information technology in the development of the financial services industry, the bank continuously modernises the information infrastructure, primarily with regard to centralising information processing and implementing industrial information technologies and systems.

Development of IT systems is based on principles of data security, integrity, availability and strategic alignment with the Bank's long-term objectives.

The Bank's "Banking Data Warehouse" system consolidates data of the Bank and its customers are used for financial analysis, customer relationship management and serves as the basis for management decisions. The information is available to specialists in the Bank's headquarters and all regional offices. The Bank's Management Accounting System facilitates management decisions, providing senior managers with information about all factual expenses and revenues of the Bank.

The Bank operates a centralised IT environment that enables it to process and account for all major banking and investment services transactions, including customer service, settlement operations and debit card processing. IT systems are an integral part of the Bank's internal controls system.

The Bank has an e-banking system. This service enables remote access to the Bank's financial services including transactions via the Internet and mobile networks for foreign credit institutions and corporate and retail customers.

The Bank utilises an Intra-bank Real Time Gross Settlement System, which allows it to control the usage of temporary surplus funds of the Bank, both in hryvnia and foreign currencies.

The high-tech data centre and the database system of the bank comply with all modern requirements and standards, and the information resource reservation system is constantly improving.

The corporate network is based on modern technologies with high-speed secure data transmission channels and combines all the branch offices and branches of the bank into a single network.

Usage of software and hardware by well-known overseas (Oracle, Microsoft, SAP, HPE, Cisco, EMC, VMware, Riverbed, Nortel, Dell, RedHat, Novell, Hitachi) and domestic producers, as well as in-house-developed software modules allows the bank to flexibly and effectively build an information system for the Bank's business needs. At the same time, migration from the in-house-developed systems to industrial solutions is a priority task for the Bank.

The in-house processing centre allows to service such payment card systems as "Visa International", "MasterCard Worldwide", "American Express", "PROSTIR".

Receiving, and regular confirmation, of the Payment Card Industry Data Security Standard certification is a testimony of the Bank's ability to deliver technological solutions that are up to the high standards demanded of international payment systems, confirming the reputation of the Bank as a secure and high-tech financial institution rigorous in its efforts to ensure the safety and security of cardholder and other customer data. See, however, "*The Bank may experience security and privacy breaches of the systems it uses to protect personal data and such systems may also be affected by physical events.*".

As part of its customer relations management policy, the Bank successfully uses an automated system for customer calls through its Contact Centre which is integrated with the Bank's internal customer information systems. The Bank plans to introduce a modern CRM-system in 2018.

As a part of the IT systems development, the modern S.W.I.F.T. IPLA package (Full Integration Pack) was implemented to provide online interaction of ABS with SWIFTAlliance in secure mode.

The S.W.I.F.T. Sanctions Screening service automates the function of additional control over the content of incoming and outgoing financial messages of the Bank, its client, and clients of the correspondent banks in order to meet the international and national standards for anti-money laundering and combating the financing of terrorism. The Sanctions Screening service allows checking financial messages in real time against the most complete sanction lists that are constantly updated by the S.W.I.F.T system.

The main tasks of the Bank in the field of IT are timely and constant processing of significant flows of data, maximum automation and efficiency of business processes, decrease of operational risks and fast release of new products.

RISK MANAGEMENT

Overview

The Bank is exposed to certain risks, including credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and securities portfolio risk), operational risk as well as strategic and reputational risk, all of which are continuously identified, assessed and controlled within the risk management process. The risk management process is critically important for maintaining the Bank's stability and enhancing compliance with regulatory requirements. Each employee of the Bank is responsible for compliance with the risk management rules and procedures.

The Bank adheres to the following key risk management principles:

- centralisation of liquidity, interest rate and currency risk management at the head office level;
- unification of analysis and monitoring procedures for credit risk management, assessment of the creditworthiness of each borrower, the establishment of credit ratings and rules for creating an allowance for loan impairment across the head office and all branches of the Bank;
- clear definition of the roles of all participants in the risk management process and of how such participants should interact among themselves;
- establishing risk limits for transaction amounts, including limits for the various risk committees of the Bank and its individual officers, exposures to single borrowers, exposures to related parties, credit portfolio concentration (by industry, counterparty groups, separate transactions/balance sheet items, etc.);
- ensuring constant risk monitoring and control and compliance with all established limits;
- avoidance of conflicts of interest; and
- ensuring internal control over compliance with policies and procedures.

The risk management process includes four stages: identification of risk, its sources and operations affected by such risk; estimation of the level of risk; implementation of various measures seeking to minimise the risk or limit it to acceptable levels; and ongoing monitoring of positions at risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank's strategic planning process.

Risk management structure

The Supervisory Council of the Bank (the "**Supervisory Council**") is generally responsible for the establishment and approval of the Bank's objectives and strategies related to risk management and management of capital. In addition, the Bank has separate and independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank at the head office level: the Board, ALCO, Credit Committee, Retail Credit Committee, Security Division, Treasury, Risk Service, Internal Audit Division.

Supervisory Council

The Supervisory Council is responsible for the overall risk management approach and for approving the risk strategies and principles.

Board

The Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by risk decisions based on quarterly reports of the Risk Service, ALCO, Credit Committee and Retail Credit Committee. The Board approves the Bank's risk management policy for the following year on an annual basis.

Assets and Liabilities Committee

The Assets and Liabilities Committee ("**ALCO**") has responsibility for the implementation of the Bank's policies and procedures in respect of liquidity and market risks and ensuring that liquidity and market risk indicators are within the specified ranges approved by the Board. The ALCO reports to the Board.

Credit Committee and Retail Credit Committee

The Credit Committee (the "**Credit Committee**") and the retail business credit committee (the "**Retail Credit Committee**") have overall responsibility for the implementation principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Board. These committees report to the Board.

Treasury and Securities Divisions

The Treasury (the "**Treasury**") is responsible for management of the Bank's liquidity position through money market operations, while the securities division (the "**Securities Division**") is responsible for management of the Bank's liquidity position through capital markets operations. The Treasury and Securities Division report to the Board.

Risk Service

Risk Service is responsible for control, monitoring, analysis and reporting of key risk indicators related to the Bank's activities. In addition, Risk Service develops and supervises the implementation of risk management methodologies, norms and procedures and estimates the risk of all banking products and structured transactions. Risk Service reports to the Board.

Internal Audit Division

The risk management processes are audited on a regular basis by the Internal Audit Division, which examines the adequacy of procedures and the Bank's compliance with such procedures. Audit findings, conclusions and recommendations are submitted to Risk Service, the Board and the Supervisory Council.

Risk measurement and risk reporting systems

The Bank's risks are measured using methods which reflect both the expected loss under normal circumstances and unexpected losses, which are estimates of the ultimate actual loss based on using statistical models. The models make use of probabilities derived from historical experience, which are adjusted to reflect the economic environment. The Bank also runs "worse case" scenarios reflecting the impact of extreme events with a low probability of occurrence. The Bank carries out back-testing of the models to check their adequacy.

Risks are monitored and controlled primarily in reliance on limits established by the Bank. These limits reflect the business strategy of the Bank and the market environment in which it operates, as well as the level of risk that the Bank finds acceptable, with certain adjustments for borrowers operating in particular industries. In addition, the Bank monitors its overall risk-bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and other risk-related indicators established by ALCO and covenants under contractual obligations of the Bank is submitted to ALCO on a monthly basis. The Board receives a comprehensive risk report that is designed to provide all the necessary information to evaluate the risks facing the Bank every quarter.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's divisions and units.

Risk mitigation

The Bank does not use derivatives to manage market risk arising from changes in interest rates and foreign exchange rates or to manage credit risk and liquidity risk as a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise its credit risk (see below for further detail).

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environments. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive risk concentrations, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risk concentrations are duly controlled and managed.

Credit risk

The Bank considers credit risk as the probability of non-timely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

In managing credit risk, the Bank considers the following:

- Structural (strategic) management: acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in the short, medium and long term whilst taking into consideration estimated and unpredictable changes in the financial and economic environment;
- Ongoing (operational) management: acceptable quality and volume of individual loans and commitments whilst taking into consideration estimated and unpredictable changes in the financial and economic environment;
- Structural (strategic) and ongoing (operational) management of the allowance for impairment and its effect on the Bank's capital adequacy ratio in the short, medium and long term whilst taking into consideration estimated and unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- Setting targets that are optimal and acceptable for the Bank as well as establishing critical and threshold levels of the key credit risk exposures;
- Providing loans or loan-related commitments solely in accordance with the approved credit policy and the Bank's internal regulations;
- Creating and maintaining allowances and provisions for loan-related operations in the amounts that are not lower than the Bank's best estimates of what these allowances and provisions should be;
- Constant monitoring of the current values of the key credit risk exposures at the level of individual loans or commitments, loan portfolios and the total loan portfolio; and
- Taking efficient actions if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and are approved by the Board.

Individual credit risk

Individual credit risk is a risk that can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification, using a system of internal credit ratings, on the basis of the customer's (or counterparty's) creditworthiness and an evaluation of the quality of such customer's loan repayment history; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with such limits; and through the creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires mandatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum size of credit exposure for transactions with a single counterparty (or group of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one insider, including financial commitments and contingencies.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions or a group of counterparties with similar credit characteristics.

Portfolio credit risk is managed through: classification of industries on the basis of an internal system of industry ratings, which takes into consideration the risk profile of each industry; monitoring of the loan portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; and diversification of loan portfolio (both by industry and by customer category).

Diversification of credit portfolio both by industry and customer category is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 50 largest customers.

As a result of the current situation in Ukraine, the Bank has implemented additional risk management procedures to monitor the financial performance and stability of the loan portfolio. At the portfolio level the Bank conducts regular stress tests which include modelling of the impact of deterioration in both the internal ratings of loans and the valuations of collateral. At individual corporate level the Bank has intensified its monitoring of borrowers to ensure timely responses to any material deterioration of individual borrowers' liquidity and/or creditworthiness.

Liquidity risk

The Bank considers liquidity risk to be the risk of becoming unable to finance growth of the Bank's assets and to fulfil its own obligations as they fall due.

The main purpose of liquidity risk management is to ensure the unconditional ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

The Bank's liquidity risk policy since the onset of the crisis in Ukraine has emphasised liquidity over profitability. The Bank has developed a comprehensive set of policies and procedures to implement its liquidity risk management strategy. These policies and procedures define the structure of relations between the different committees, divisions and other units within the Bank for the purposes of risk management and liquidity monitoring and allocate responsibility for monitoring and actions in case of non-compliance within the established limits. These policies and procedures also include detailed descriptions of methods for monitoring assets, liabilities and the financial position data as a whole, as well as setting out a system for defining limits, modelling and stress-testing methods, and the formulation of appropriate scenarios including assumptions of asset default probability and client withdrawals. Liquidity management is conducted continuously by ALCO, the Risk Management Division, Assets and Liability Management and the Treasury. ALCO develops the Bank's liquidity management policy and procedures for evaluating and managing liquidity risk and assesses liquidity requirements. The Treasury manages the current accounts with credit institutions under the limits approved by ALCO in respect of immediate liquidity. The Assets and Liability

Management carries out the day-to-day managing under the limits approved by ALCO and liquidity position forecasts, taking into account the operations of both the head office and branches. The Risk Management Division carries out the day-to-day monitoring of the Bank's short-term exposure to liquidity risk and prepares monthly (since the onset of the crisis, weekly or daily) liquidity position estimations which are made on the basis of accounting and operational information and the expertise of the Risk Management Division, Assets and Liability Management and the Treasury. A diverse range of stress tests scenarios is applied in quarterly and monthly basis. Liquidity position estimates are submitted to ALCO. The Risk Management Division also recommends liquidity ratios and, after consultation with the Assets and Liability Management, the Treasury submits them to ALCO for approval.

The Bank has a set of internal guidelines entitled the "Contingency Plan" for maintaining liquidity in the event of an emergency. The relevant actions to be taken by the Bank in order to prevent or overcome a liquidity crisis are set out in this plan. Matters covered include a list of pre-emptive measures to be taken to avoid a liquidity crisis, the methods used for the detection and analysis of a potential crisis, a comprehensive package of primary actions to stabilise liquidity risk, and analysing the effectiveness of measures taken.

Liquidity risk is managed on two levels:

- structural (short and long-term) assets and liabilities management focuses on achieving appropriate liquidity levels in the short and long-term perspective; and
- current (short-term) assets and liabilities management focuses on achieving appropriate levels of instant and current liquidity taking into account various possible scenarios in respect of cash flow changes.

Liquidity risk management is based on achieving acceptable levels of Liquidity coverage ratios (including by currency and terms) and on the following additional principles:

- determining target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- constant monitoring of key liquidity risk indicators; and
- using adequate corrective measures if key liquidity risk indicators approach their critical and/or threshold levels.

The target, critical and threshold levels of key liquidity risk indicators are updated at least annually and are approved by the Board.

In addition, the Bank is subject to liquidity requirements set by the NBU. See "*The Ukrainian Banking Sector-Reserve and Liquidity Requirements*". The Bank's risk management system incorporates the NBU's requirements and does not permit limits set by the NBU to be exceeded. See note 26 to the Audited Financial Statements for information on the Bank's liquidity position as at 31 December 2016 and 31 December 2015 as assessed by comparison to the relevant liquidity ratios established by the NBU.

Market risk

The Bank is exposed to market risk arising from open interest rate, foreign currency and securities portfolio positions, all of which are exposed to market volatility.

Market risk management is carried out by:

- determining target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key market risk indicators;
- constant monitoring of key market risk indicators; and
- using adequate corrective measures if key market risk indicators approach their critical and/or threshold levels.

The target, critical and threshold levels of key market risk indicators are updated at least annually and approved by the Board.

Interest rate risk

The Bank considers the mismatch of interest receipts and interest payments by amounts or maturity to be the main source of its interest rate risk.

In response to the ongoing financial crisis the Bank has adjusted its risk testing scenarios to reflect increased volatility in interest rates. In the absence of suitable hedging instruments available on the Ukrainian market, the Bank endeavours to match its interest rate exposure. ALCO sets interest rate risk limit as a ratio of cumulative interest gap to total assets (defined as the interest gap in each category divided by total earning assets), and Risk Management Division monitors the Bank's interest rate exposure against these limits. The interest rate stress tests to measure the impact on capital adequacy are performed monthly and the results are analysed by ALCO at its regular meetings.

The interest rate sensitivity analysis includes setting periodic forecasts. Assets and liabilities are then broken down by sensitivity to interest rate movements and these are further broken down by reference to their contractual repricing or maturity date. Calculations of gap, cumulative gap and gap ratios are carried out for each period and are compared to approved gap ratios and cumulative gap.

Interest rate risk is managed through a combination of:

- structural (strategic) and current (operational) management of interest-bearing assets aimed at achieving acceptable structure and amount of interest income in short, middle and long-term perspective taking into account various possible scenarios in respect of changes in interest rates; and
- structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and amount of interest expenses in short, middle and long-term perspective taking into account various possible scenarios in respect of changes in interest rates.

For information on the sensitivity of the consolidated income to changes in interest rates on the net interest income for a year, based on the floating rate non-trading financial assets, financial liabilities and investment securities designated at fair value through profit or loss held as at 31 December 2016, see note 25 to the Audited Financial Statements.

Currency risk

The Bank considers the unpredictability of fluctuations in foreign currency exchange rates to be the main source of currency risk.

The Bank's approach to currency risk management is based on principles of consolidated currency risk management and includes the setting of limits on open currency positions (in terms of absolute exposure and "value at risk" measures) and stop loss limits. Limits on open currency positions are set for the Bank as a whole, aimed at preserving capital adequacy. The Risk Management Division monitors compliance with limits on open currency positions at a daily basis and submits reports to ALCO. In response to the crisis the Bank has adjusted its stress test scenarios to reflect increased volatility.

ALCO sets limits for treasury operations in international currencies. Limits are set at the end of each day and for intra-day operations. Stop-loss limits are also established by ALCO. The Assets and Liability Management monitors compliance with these limits.

Currency risk is managed through a combination of:

- structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long-term perspective taking into account various possible scenarios in respect of changes in foreign currency exchange rates; and
- structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long-term perspective

taking into account various possible scenarios in respect of changes in foreign currency exchange rates.

Securities portfolio risk

Securities portfolio risk is the risk of changes in the value of securities held by the Bank as a result of market price movements.

The Board sets a number of limits on certain types of operations aimed at achieving a profit-to-risk balanced securities portfolio composition. The Bank has the following limits in place: securities portfolio and sub-portfolio limits, issuer limits and stop-loss limits. Pursuant to its general risk management policy, the Bank also uses instruments such as repurchase agreements to manage its trading securities portfolio risk.

The established limits may be adjusted by the Board depending on market conditions. Ongoing adjustments of these limits are also undertaken in the event of negative changes in the quality of the composition of the Bank's securities portfolio. The Risk Management Division performs subsequent monitoring of compliance with the limits.

The Bank conducts securities portfolio risk assessments by means of modified duration analysis on a regular basis and, depending on the results of the analysis that explain the effects of market developments on the Bank's securities portfolio, revises applicable limits.

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December 2016 to assess the possible effects of the assumed changes in interest rates. For securities classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified at the 3 level of the hierarchy - a method of yield curve, with the following assumptions: +/-400 b.p. for corporate bonds, +/-200 b.p. for Ukrainian state bonds denominated in local currency, +/-100 b.p. for Ukrainian state bonds in U.S. Dollars, +/-20 per cent. interest rate change for corporate bonds of the 3 level of hierarchy.

Sensitivity of net profit/(loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit/(loss) as of 31 December 2016 in terms of effects of the assumed changes in interest rates using the method of modified duration.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. In case the internal controls system fails to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through developing a set of policies and procedures for controlling operational risks and, including those in connection with the high level of automation in the data transfer, processing and storing systems, by monitoring and responding to potential risks, the Bank is of the view that it is placed in a strong position to manage such risks. The comprehensive framework for managing operational risks includes, among other things, effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Lending Policies and Procedures

Head Office Credit Committee and Head Office Retail Credit Committee

The Bank's credit approval bodies comprise the Board, the Head Office Credit Committee ("**HOCC**"), the Head Office Retail Credit Committee ("**HORCC**"), the Branch Credit Committees ("**BCCs**") and loan officers at the head office. They are responsible for implementing the Bank's lending strategy and forming a balanced and diversified loan portfolio. Lending decisions are taken by the HOCC, the HORCC, the BCCs and loan officers at the head office (except related borrowers) within the limits of their respective authorities.

The HOCC is authorised to take decisions on granting loans up to a maximum limit of UAH 290 million for a single borrower or a group of related borrowers. Loans above this limit have to be approved by the Board. The HOCC is also authorised to set limits (sub-delegate powers) to branches for approval of loans to corporate customers.

The HORCC is authorised to take decisions on granting loans up to a maximum limit of UAH 20 million to an individual single borrower or a group of related individual borrowers and maximum limit of UAH 100 million to a single small and medium-sized business. Loans to individuals, small and medium-sized enterprises above this limit are to be approved by the Board. The HORCC is also authorised to sub-delegate powers to branches for approval of retail loans and loans to small and medium-sized enterprises.

BCC's delegations comprises branch limits of up to UAH 30 million, depending on the status of the branch and the risk level of the underlying credit product, only if the gross risk is fully cash covered. Currently BCC's are only authorised to approve fully cash collateralised credit operations under strict and comprehensive operating procedures.

Loan review process

The Bank is continuously working on the improvement of its lending procedures and the improvement of the skills of its staff working in this field, with a special emphasis on perfecting the procedures for reducing credit risks.

The HOCC, the HORCC, BCCs, BMs and loan officers at the head office, as appropriate, approve loans in accordance with the lending policy. The Board sets lending limits for certain economic sectors, limits of appetite for credit risk, secured by certain types of collateral. ALCO determines the Bank's loan pricing strategy and recommended interest rates according to product type and credit terms.

Loan applications are subject to extensive review. The majority of projects for which branches receive loan applications, irrespective of the amount, are subject to coordination with the head office. An application must receive preliminary approval from the relevant HOCC/HORCC/BCC. If the local BCC gives a preliminary approval, the loan proposal is sent to the relevant product line unit in the head office. The loan officers at the head office check each loan application to ensure that it conforms with internal regulations and the Bank's credit policy and then approve or deny the application. Considering the insignificant sums of retail loans, the majority of retail loan applications for standard loan products are considered and approved/declined by BCCs according to their limits.

The decision making period after submission of the relevant loan documentation is, on average, fifteen days for head office applications and eighteen-twenty days for branch applications for corporate customers, ten days for branch applications for small enterprises and, on average, from two hours to ten days (depending on product and level of making decision) for retail customers.

The loan approval procedure for both corporate and individual customers includes:

- *Preliminary analysis* — assessing whether the loan project complies with the lending policies of the Bank.

- *Comprehensive (in-depth) analysis* — upon receipt of all documents required for the comprehensive analysis of the project, the financial analysis of the project is undertaken. It includes an analysis of the financial condition and creditworthiness of the borrower, guarantor and/or surety, calculation of the return on investment for the project (except individual loans) and the assignment of the PD-rate/credit rating to the borrower. The loan department sends the appropriate documents to the Legal Division for their legal analysis, to the Security Division for the analysis of the credit history of the borrower, its reputation, guarantee and/or surety and founders and to the collateral monitoring division (the "**Collateral Monitoring Division**") for the assessment of the collateral, to the Credit Risk Analysis Division for determining the credit risk for the loans, the rating of the borrower/group, PD-rate/credit rating, the risk parameters of the loan project and the risk limit on the borrower/group.

- *Visits to the borrower's and guarantor's premises* — to verify the submitted financial statements, the condition of production facilities of the company and the condition, availability (except individual loans) and storage conditions of the proposed pledged property. Such inspections are a mandatory requirement for the granting of a new loan or the extension of an existing loan.

- *Drafting the loan proposal* — all lending units use a standard loan proposal form on which they summarise their conclusions, include a proposal to be considered by the HOCC, HORCC, BCCs or product line officers and draft the resolutions of the HOCC, HORCC, BCC or loan officers at the head office. The draft resolution needs to be signed by a credit analyst and by the head of each of the following divisions: the Lending Division, the Legal Division, the Collateral Monitoring Division and the Risk Management Division.

- *Loan approval* — the loan proposal, together with the recommendation of the origination unit, a draft decision and data on the borrower's financial performance, are delivered to the secretary of the HOCC or the HORCC who circulates documents to members of the HOCC, HORCC or loan officers at the head office, as appropriate. The proposal is appraised, terms and conditions may be modified and a decision is taken. Approval requires the affirmative vote by the majority of votes of the members of the HOCC/HORCC/Board as appropriate.

- *When a branch loan proposal exceeds established limits* — the branch loan officers evaluate loans and the local BCC gives a preliminary approval or rejection. If a project is approved by the BCC, the proposal is being sent to the relevant head office product line officer, together with supporting documentation. The officers at the Bank's head office perform an additional analysis of the proposal, check the terms of the loan and its conditions with the Credit Risk Analysis Division and the Collateral Monitoring Division and prepare the loan proposal for HOCC/HORCC/Board as appropriate.

- *Preparing legal documents* — standard forms of loan agreements, pledge and mortgage agreements are used by the Bank. The Lending Division drafts loan agreements and guarantee agreements; the Collateral Monitoring Division drafts pledge and mortgage agreements. The documents are then reviewed by the Legal Division and Administration of Loans and Collateral Division and are signed by the appropriate number of authorised persons.

- *Providing loans* — Providing loans is carried out after implementation by the Borrower/Pledgor/ Guarantor has satisfied all prior agreements conditions (for example, maintenance of financial covenants, signed pledge and mortgage agreements, guarantee agreements, pledge and mortgage insurance, etc.) and verification by the Administration of Loans and Collateral Division. Loans are provided by the Back Office Division.

- *Monitoring* — The Bank monitors and administers the loans during the term of each loan agreement (namely, financial covenants, the cost and storage conditions of the mortgage, insurance, business reputation of borrower / pledgor / guarantor (as the case may be)).

In accordance with NBU requirements, the operations of the branches located in certain parts of the Donetsk and Luhansk regions of Ukraine have been stopped as a result of the ongoing conflict.

Due to the impracticality of the Bank monitoring the state of and reappraising any collateral located in certain parts of the Donetsk and Luhansk regions, the cost of such collateral is not considered in the calculation of the allowances.

Economic Security Division

The Bank is one of the founders of the first Ukrainian Credit Bureaux that unites over 30 commercial banks for the purpose of collecting and exchanging information on borrowers' credit histories. The Bank has also established its own in-house security division, which is responsible for verifying the authenticity of the credit history and reputation (management, founders, etc.) of each customer, finding information on the financial performance of customers that are not available in their financial statements, both at the time of loan approval and during the life of the loan.

In the event the loan is not repaid when due, the Economic Security Division investigates other options of debt repayment. Besides that, the Economic Security Division cooperates with state authorities in order to protect the Bank interests.

At the same time, the Economic Security Division team working with AMEX, VISA, MasterCard international payments system cards and PROSTIR national payment system cards monitors the payment card transactions on 24/7 basis and executes chargebacks in compliance with the payment system rules in order to protect the Bank and its customers' interests.

Collateral Division

The Bank considers collateral an essential means of credit risk reduction. The Bank accepts property belonging to the borrower or to third parties (guarantors) as collateral. The Bank also accepts property rights, securities and secured guarantees issued by other banks as collateral. Preferred types of collateral for the Bank are charges over deposits with the Bank, bank metals, state securities, mortgages on liquid administrative, office, commercial and residential real estate. The Bank also accepts other types of collateral but they are regarded as secondary and accepted as additional security only.

The Collateral Division is in charge of evaluation/revaluation of, monitoring of security accepted by the Bank as collateral as well as preparation and execution of collateral/mortgage agreements. The primary task of the Collateral Division is to ensure the protection of the Bank's interests while carrying out credit banking operations both at the head office and branch level, by determining availability, compliance, cost, adequacy, liquidity of property/property rights that are offered/issued as security for credit liabilities, as well as to create an effective system for monitoring thereof.

The provision of collateral is mandatory for all types of loans, except for unsecured overdrafts. The size of the required collateral is determined by the standard coverage ratio of the credit liabilities, the amount of which depends on the type of the credit transaction and the type of collateral. Pursuant to the Bank's policy, the property and the property rights pledged/offered as collateral are divided into collateral classes, which are dependent on the risk level.

Loan classification and allowances

The Bank classifies credit risk exposures based on the internally designed rating system for clients and groups of related parties. Loans are assessed based on a number of factors, the most important of which include:

- borrower's financial performance and creditworthiness (taking into account the performance of the sector of the economy in which the borrower operates);
- quality of the borrower's servicing of the current loan (timely repayment of interest and principal) and its credit history (including its record with other banks);
- loan security (collateral) available;
- quality of borrower's management reputation; and
- borrower's business growth prospects.

The Bank has also defined appropriate credit risk measures for assessing each loan, which are based on its expert assessment of the expected level of losses that the Bank may incur based on its evaluation of risks and its historical loss experience. Such credit risk factors form the basis of the calculation of allowance for loan impairment.

Credit risk assessment focuses on whether the borrower has the ability to repay the debt on the agreed terms. The assessment is not entirely dependent upon the adequacy of the collateral. Collateral is considered to be the Bank's recourse should the borrower default on the loan. Although collateral adequacy is a key component in determining the necessary loan loss provision, the Bank realises that in the current environment, the valuation, existence (control) and ability to realise collateral is subject to significant doubt in many instances. Accordingly, the eligible value of collateral is reviewed and analysed on a case-by-case basis.

The Bank regularly reviews its loans and risk assessments, as a result of which an individual risk assessment indicator is assigned to each loan. The risk assessment indicator, which consists of the customer's credit rating-based probability of default ratio and the specific credit operation type-based "operational risk ratio", is used for computing the amount of the allowance for loan impairment or other provision based on the ultimate loss given default calculations (considering also the existing guarantees/sureties and collateral in place) and on the comparison of the carrying value of the loan against the estimated amount recoverable (collectible) on such loan. The Bank also analyses any loss mitigating factors (e.g., guarantees available and proceeds from collateral realisation).

The impairment review requires an estimate of the expected amounts of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate.

The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. If this occurs, a separate impairment loss on an impaired individual loan is recorded.

In response to the difficult economic and political situation in Ukraine during 2014, the attempted annexation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions, the Bank modified its credit policy to impose limits on the decisions in respect of credit risk (in relation to lending) for branches located in Crimea and within territory not controlled by the Ukrainian government. Collateral for loans, which are located within territory that is not controlled by the Ukrainian government, is not taken into account for the purposes of calculating the allowance for impairment. In addition, the Bank created provisions for impairment on loans to customers located in Crimea which is currently set a 100 per cent..

The following table sets out the Bank's outstanding gross loans and the allowance created against them:

	As at 31 December		As at 30 June
	2015	2016	2017
	(UAH thousands)		(UAH thousands)
	(audited)	(audited)	(unaudited)
Loans to customers	**95,948,114**	**104,020,338**	**102,665,045**
Allowances for impairment on loans to customers	(40,848,211)	(45,550,807)	(45,818,333)
Loans to customers, net	**55,099,903**	**58,469,531**	**56,846,712**
Amounts due from credit institutions	**4,632,489**	**2,390,341**	**3,673,366**
Allowance for impairment of amounts due to credit institutions	(548,746)	(845,865)	(848,904)
Amounts due from credit institutions, net	**4,083,743**	**1,544,476**	**2,824,462**

The following table sets out details of changes in the allowance for impairment on loans to customers for the years ended 31 December 2015, 2016 and for the six month period ended 30 June 2017:

	Year ended 31 December		Six Months Ended
	2015	2016	30 June 2017
	(UAH thousands)		(UAH thousands)
	(audited)	(audited)	(unaudited)
Allowance for loan impairment at the beginning of the year/period	23,187,109	40,848,211	45,550,807
Charge to allowance for loan impairment during the year/period	9,910,284	5,427,257	1,080,910
Loans written off during the year/period as uncollectible	(9,739)	(4,728,363)	(152)
Translation differences	7,755,082	3,881,635	(835,192)
Recoveries	5,475	122,067	21,960
Allowance for loan impairment at the end of the year/period	**40,848,211**	**45,550,807**	**45,818,333**

Problem Loan Recovery

The internal procedures relating to problem loan recovery are described in the Bank's unified credit procedures for consideration and handling of loan projects and Guidelines for Bad Loan Workout, which detail a systematic approach, involving comprehensive procedures intended to enable the Bank to obtain the highest likelihood of repayment on non-performing loans.

If a borrower fails to perform its obligations under a loan agreement with the Bank, the relevant loan officer works together with the borrower to take all initial actions to assist repayment (including determining the reasons of late payments, negotiations, performing unscheduled inspections of the borrower's financial and economic activity and/or collateral, attempting to find new investors in the loan, reorganisation of the borrower's business, sale of collateral, debt recovery through legal proceedings or development of other effective measures to recover the full or partial amount of such loans). If such measures do not result in the repayment of the loan and the period of non-performance of obligations exceeds 90 days from the initial failure to pay, the loan is classified as a "problem loan".

Problem loans are referred to the HOCC or HORCC.

The Workout Committee establishes the prerequisites for the workout procedures. The Workout Committee also takes decisions on suspension or extension of the court judgment implementation; conclusion of the settlement agreement and approval of the action plan in case of settlement agreement breach; filing to the court a petition in the borrowers bankruptcy; initiating a rehabilitation procedure; approval of the business financial recovery action plan under the bankruptcy proceedings; sale, recognition and protection of the collateral; and approval of transfer of collateral to the lease, etc.

If action on overdue debt collection of problem loans has not resulted in repayment and there are legal grounds to consider a loan as a complete loss, the Bank may write it off against allowances for impairment. The final decision of writing off bad debts is taken by the Board. The procedure for writing off bad debts is regulated by the NBU and the internal procedures of the Bank.

The Guidelines for Bad Loan Workout specify the functions and responsibilities of the Bank divisions and the specific features of interactions between them in the course of workout process.

The Workout Division arranges and coordinates the Bank's problem debt collection.

The Legal Division is in charge of the claims enforcement work.

The main functions of the Workout Division include developing action strategy, implementing and coordinating activities in relation to the problem debt collection, organising legal support for litigation cases brought under enforcement proceedings, representing the Bank in bankruptcy proceedings, interacting with law enforcement and other government agencies and working with the debtors (such work being aimed at identifying additional assets, receivables and other assets and resources that can be used to repay debt).

Where possible, the Bank seeks to renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such renegotiation is as follows:

- if the currency of the loan has been changed, the old loan is not recognised whereas the new loan is recognised;
- if the loan renegotiation is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower – the loan is not recognised as impaired;
- if the loan is impaired after renegotiation, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before renegotiation is included in the impairment charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to be made. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Under the existing Ukrainian legislation, business entities that are registered in territories which are not fully controlled by the Ukrainian authorities (namely the Crimea and certain parts of the Donetsk and Luhansk regions), may re-register themselves in territories controlled by Ukrainian authorities and are therefore unobstructed in the repayment of their credit obligations. Individuals, who were or are outside the territories controlled by Ukrainian authorities, also have the opportunity to repay their credit obligations in the territories controlled by Ukrainian authorities.

Debt collection from borrowers located in Crimea is regulated by existing Ukrainian law, including the Law of Ukraine "*On the Rights and Freedoms of Citizens and Legal Regime of the Temporarily Occupied Territory of Ukraine*." Enforcement mechanisms in relation to recovery of bad debts from debtors located in Crimea and certain parts of the Donetsk and Luhansk regions (which are not currently controlled by the Ukrainian authorities) are being developed by the Ministry of Justice of Ukraine.

According to Ukrainian law, compensation for damage caused by illegal occupation of Crimea is payable by the Russian Federation. The Cabinet of Ministers has instructed the Ministry of Justice to assess the losses related to unlawful seizure of property by the Russian Federation in connection with this occupation. In accordance with this mandate of the Ministry of Justice the Bank effected assessment of its losses in connection with the occupation of Crimea. Such information was provided to the Ministry of Justice and to the National Bank of Ukraine.

SELECTED STATISTICAL DATA AND OTHER INFORMATION

The following information is included for analytical purposes and should be read in conjunction with the information in "Summary of Financial Information and Financial Ratios", "Financial Review" and the Financial Statements appearing elsewhere in this Offering Circular.

Average Balance Sheet and Ratio Information

The following table sets out the unaudited consolidated average balances of interest-earning assets and interest-bearing liabilities of the Bank for the years ended 31 December 2016 and 2015. For the purposes of the following tables, the average balances have been calculated on the basis of the Bank's balances at the beginning and at the end of the respective periods.

	Year ended 31 December					
	2015			2016		
	Average Balance	Interest Income/ (Expense)	Average Rate	Average Balance	Interest Income/ (Expense)	Average Rate
	(UAH thousands)		*(%)*	*(UAH thousands)*		*(%)*
Due from credit institutions[1]	17,234,907	642,360	3.7	15,549,112	273,248	1.8
Loans to customers	52,536,848	7,333,783	14.0	56,784,717	8,107,630	14.3
Investment securities	49,738,136	4,987,958	10.0	61,871,925	4,900,531	7.9
Amounts due from the NBU	5,284,416	247,309	4.7	8,909,896	399,002	4.5
Total interest earning assets	**124,794,307**	**13,211,410**	**10.6**	**143,115,650**	**13,680,411**	**9.6**
Due to the NBU	4,114,378	(904,487)	22.0	1,490,217	(202,840)	13.6
Due to credit institutions	17,927,663	(1,013,118)	5.7	23,614,800	(887,024)	3.8
Due to customers	70,656,536	(5,218,921)	7.4	82,553,448	(5,195,463)	6.3
Eurobonds issued	27,443,387	(2,795,722)	10.2	35,342,320	(3,399,655)	9.6
Subordinated debt	7,757,702	(885,991)	11.4	6,435,632	(761,388)	11.8
Total interest bearing liabilities	**127,899,666**	**(10,818,239)**	**8.5**	**149,436,417**	**(10,446,370)**	**7.0**

(1) Including current accounts, overnight deposits, time deposits with credit institutions up to 90-days and reverse repurchase agreements with contractual maturity up to 90 days and excluding current accounts with the NBU and deposit certificates of the NBU up to 90 days.

The following table sets out the unaudited consolidated average balances of interest-earning assets and interest-bearing liabilities of the Bank for the six months ended 30 June 2017.

	Six Months Ended 30 June		
	2017		
	Average Balance	Interest Income/ (Expense)	Average Rate *(annualised)*
	(UAH thousands)	*(UAH thousands)*	*(%)*
Due from credit institutions[1]	16,190,128	46,590	0.6
Loans to customers	57,658,122	3,542,072	12.3
Investment securities	73,036,671	2,609,116	7.1
Amounts due from the NBU	9,785,318	78,539	1.6
Total interest earning assets	**156,670,239**	**6,276,317**	**8.0**
Due to credit institutions	26,332,583	(657,079)	5.0
Due to customers	87,843,589	(2,226,101)	5.1
Eurobonds issued	36,813,144	(1,754,121)	9.5
Subordinated debt	3,427,189	(139,015)	8.1
Total interest bearing liabilities	**154,416,505**	**(4,776,316)**	**6.2**

(1) Including current accounts, overnight deposits, time deposits with credit institutions up to 90-days and reverse repurchase agreements with contractual maturity up to 90 days, and current accounts with the NBU and deposit certificates of the NBU up to 90 days.

Average Net Interest Margin and Spread

The following table shows the Bank's average interest-earning assets, average interest-bearing liabilities and net interest income and illustrates the comparative net interest margin and net interest spread for each of 2015 and 2016 and for the six months ended 30 June 2017. The averages are based on the opening and closing balances for the respective years.

	Year ended 31 December		Six Months Ended 30 June
	2015	2016	2017
	(UAH thousands, except percentages)		
Total average interest-earning assets	124,794,307	143,115,650	156,670,239
Total average interest-bearing liabilities	127,899,666	149,436,417	154,416,505
Net interest income	2,393,171	3,234,041	1,500,001
Average yield on average interest-bearing assets	10.6%	9.6%	8.0%
Average yield on average interest-bearing liabilities	8.5%	7.0%	6.2%
Net interest margin(1)	1.9%	2.3%	1.9%
Net interest spread(2)	2.1%	2.6%	1.8%(3)

(1) Net interest margin is defined as net interest income (interest income less interest expenses) divided by average interest earning assets
(2) Net interest spread is defined as interest income before allowance for impairment divided by average interest earning assets less interest expense divided by average interest bearing liabilities
(3) This figure has been annualised.

Changes in Interest Income and Expenses — Volume and Rate Analysis

The following table allocates the changes in the Bank's interest income and expense to changes in volume and rates for 2015-2016. Changes in volume have been calculated as the change in volume times the previous year's old average rate; changes in rate have been calculated as the change in rate times the previous year's volume and changes in rate/volume has been calculated as the change in rate times the changes in volume.

Rate/Volume Analysis	2016/2015			
	Volume	Increase / (decrease) Rate	Due to change in Rate / Volume	Net Change
	(UAH thousands)			
Loans to customers	592,973	167,343	13,531	773,847
Amounts due from credit institutions	(62,831)	(339,487)	33,206	(369,112)
Amounts due from the NBU	169,671	(10,663)	(7,315)	151,693
Investment securities	1,216,829	(1,048,477)	(255,780)	(87,427)
Total interest income	**1,939,598**	**(1,282,334)**	(188,262)	**469,001**
Amounts due to customers	(878,745)	772,185	130,018	23,458
Eurobonds issued	(804,683)	155,883	44,867	(603,933)
Amounts due to credit institutions	(321,388)	339,715	107,767	126,094
Subordinated debt	150,991	(31,809)	5,421	124,603
Amounts due to the NBU	576,884	344,461	(219,698)	701,647
Total interest expense	**(1,821,660)**	**1,877,398**	**316,131**	**371,869**
Net interest income	**117,938**	**595,064**	**127,869**	**840,870**

Loan Portfolio

The Bank's loan portfolio comprises fixed and floating rate loans of short-term and long-term duration. The Bank's total loans, including amounts due from credit institutions and the NBU (including components of cash and cash equivalents) and net of allowance for impairment, were UAH 61,908 million as at 31 December 2016 and UAH 64,281 million as at 31 December 2015, which accounted for 38.6 per cent. and 45.5 per cent. of total assets respectively.

As at 30 June 2017, the Bank's total loans, including amounts due from credit institutions and the NBU (including components of cash and cash equivalents) and net allowance for impairment, were UAH 64,581 million which accounted for 38.3 per cent. of total assets.

Loans to customers net of allowance for loan impairment were UAH 58,470 million and UAH 55,100 million or 36.5 per cent. and 39.0 per cent. of total assets as at 31 December 2016 and 31 December 2015, respectively. The size of the Bank's total (gross) loan portfolio, excluding amounts due from credit institutions, grew during the period by 8.4 per cent., from UAH 95,948 million as at 31 December 2015 to UAH 104,020 million as at 31 December 2016 mainly due to exchange valuation adjustment. Without exchange valuation adjustment the size of the Bank's total (gross) loan portfolio, excluding amounts due from credit institutions, decreased by 1.2 per cent.

As at 30 June 2017, the loans to customers net of allowance for loan impairment were UAH 56,847 million, which accounted for 33.8 per cent. of total assets.

The Bank's allowance for loan impairment for loans to customers amounted to UAH 45,551 million and UAH 40,848 million as at 31 December 2016 and 2015, respectively.

As at 30 June 2017, the Bank's allowance for loan impairment on loans to customers amounted to UAH 45,818 million indicating a growth of UAH 268 million (or 0.6 per cent.) during the period, mainly attributed to collateral market value adjustment. As at 30 June 2017, 76.7 per cent. of the Bank's loan portfolio were loans denominated in foreign currencies.

The following tables show the maturity profile of the Bank's loans as at 31 December 2015, 2016 and 30 June 2017:

	As at 31 December			
	2015	**(%) of total portfolio**	**2016**	**(%) of total portfolio**
	(UAH thousands (audited)	*(%)*	*(UAH thousands) (audited)*	*(%)*
Less than 1 month	3,030,951	5.5	2,691,675	4.6
From 1 to 3 months	3,357,516	6.1	3,110,418	5.3
From 3 to 12 months	24,324,694	44.1	19,752,995	33.8
1-5 years	17,258,600	31.3	23,032,942	39.4
Over 5 years	7,128,142	12.9	9,881,501	16.9
Total loans to customers	**55,099,903**	**100.0**	**58,469,531**	**100.0**

	As at 30 June	
	2017	**(%) of total portfolio**
	(UAH thousands (unaudited)	*(%)*
Less than 1 month	5,282,817	9.3
From 1 to 3 months	2,838,146	5.0
From 3 to 12 months	13,394,560	23.6
1-5 years	22,646,986	39.8
Over 5 years	12,684,203	22.3
Total loans to customers	**56,846,712**	**100.0**

The following table shows the maturity profile of the Bank's Eurobonds by year as at 31 December 2016:

	USD Millions
2017	0
2018	0
2019	438
2020	198
2021	483
2022	158
2023	85
2024	75
2025	38

The following table shows the composition of the Bank's loans to customers (net of allowance for impairment) by currency exposure as at 31 December 2015, 2016 and 30 June 2017:

	As at 31 December			
	2015	**(%) of total portfolio**	**2016**	**(%) of total portfolio**
Currency:	*(UAH thousands)*	*(%)*	*(UAH thousands)*	*(%)*
Hryvnia	13,339,165	24.2	13,345,956	22.8
Euro	1,752,189	3.2	3,531,161	6.0
U.S. Dollars	39,999,495	72.6	41,575,754	71.1
Other	9,055	0.0	16,660	0.1
Total	**55,099,903**	**100.0**	**58,469,531**	**100.0**

Currency:	As at 30 June 2017 (UAH thousands)	(%) of total portfolio (%)
Hryvnia	13,266,565	23.3
Euro	4,627,743	8.1
U.S. Dollars	38,935,716	68.5
Other	16,688	0.1
Total	**56,846,712**	**100.0**

The following tables show the concentrations of the Bank's loans to customers by industry sector as at 31 December 2015, 2016 and 30 June 2017:

	As at 31 December 2015		**As at 31 December 2016**	
	(UAH thousands) (audited)	*(%)*	*(UAH thousands) (audited)*	*(%)*
Agriculture and food industry	16,779,746	17.5	18,717,772	18.0
Extractive industry	10,984,005	11.4	12,316,626	11.8
Trade	11,303,278	11.8	11,744,970	11.3
Chemical industry	8,827,769	9.2	9,737,760	9.4
Real estate	8,846,650	9.2	8,699,429	8.4
Mechanical engineering	6,475,345	6.7	7,665,099	7.4
Metallurgy	5,561,073	5.8	6,203,129	6.0
Construction	4,771,851	5.0	6,126,703	5.9
Power engineering	2,614,353	2.7	5,251,422	5.0
Production of construction materials	3,973,268	4.1	4,338,374	4.2
Hotels and restaurant	3,596,452	3.7	4,337,384	4.2
Production of rubber and plastic goods	4,361,864	4.5	2,623,755	2.5
Transport and communications	1,911,787	2.0	2,032,035	1.9
Individuals	1,303,048	1.4	1,333,388	1.3
Pulp and paper industry	1,033,578	1.1	904,725	0.9
Finance	453,280	0.5	418,232	0.4
Wood processing	220,159	0.2	252,426	0.2
Health protection	239,892	0.3	245,410	0.2
Professional, scientific and technical activity	171,104	0.2	191,894	0.2
Light industry	493,310	0.5	185,233	0.2
Metal processing	158,885	0.2	154,732	0.1
Road construction	1,053,974	1.1	–	–
Other	813,443	0.9	539,840	0.5
Total gross loans	**95,948,114**	**100**	**104,020,338**	**100**

	As at 30 June 2017	
	(UAH thousands) (unaudited)	*(%)*
Agriculture and food industry	17,060,723	16.6
Trade	11,421,492	11.2
Extractive industry	10,176,451	9.9
Chemical industry	9,652,346	9.4
Real estate	8,328,954	8.1
Mechanical engineering	7,952,423	7.7
Power engineering	7,901,764	7.7
Construction	6,211,900	6.1
Metallurgy	5,968,670	5.8
Production of construction materials	4,660,098	4.5
Hotels and restaurants	4,334,846	4.2
Production of rubber and plastic goods	2,589,392	2.5
Transport & communications	1,869,208	1.8
Individuals	1,312,842	1.3
Pulp and paper industry	1,115,755	1.1
Finance	459,726	0.4
Light industry	235,076	0.2
Health protection	229,195	0.2
Wood processing	188,470	0.3
Professional, scientific and technical activities	183,888	0.2
Metal processing	150,452	0.1
Other	661,374	0.7
Total gross loans	**102,665,045**	**100.0**

The following table sets out the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2016:

	31 December 2016			
	Ukraine	OECD countries	CIS and other non-OECD countries	Total
		(UAH thousands)		
Assets				
Cash and cash equivalents	10,609,012	10,643,182	126,323	21,378,517
Due from credit institutions	867,369	639,620	37,487	1,544,476
Loans to customers	58,469,531	-	-	58,469,531
Investment securities				
- designated at fair value through profit or loss	24,064,110	-	-	24,064,110
- available-for-sale	48,193,549	-	-	48,193,549
- held-to-maturity	139,098	-	-	139,098
Other financial assets	353,292	2,266	157	355,715
	142,695,961	**11,285,068**	**163,967**	**154,144,996**
Liabilities				
Amounts due to the national bank of Ukraine	659	-	-	659
Amounts due to credit institutions	2,661,207	25,268,696	826	27,930,729
Amounts due to customers	84,673,369	425,818	689,765	85,788,952
Eurobonds issued	-	37,562,345	-	37,562,345
Subordinated debt	-	3,495,895	-	3,495,895
Other financial liabilities	29,071	17,434	348	46,853
	87,364,306	**66,770,188**	**690,939**	**154,825,433**
Net position	**55,331,655**	**(55,485,120)**	**(526,972)**	**(680,437)**
Commitments and contingencies	**3,793,111**	**4,568**	**-**	**3,797,679**

The following table sets out the geographical concentration of the Bank's financial assets and liabilities as at 31 December 2015:

	31 December 2015			
	Ukraine	OECD countries	CIS and other non-OECD countries	Total
		(UAH thousands)		
Assets				
Cash and cash equivalents	10,552,282	13,482,723	206,174	24,241,179
Due from credit institutions	3,747,379	299,716	36,648	4,083,743
Loans to customers	55,099,903	-	-	55,099,903
Investment securities				
- designated at fair value through profit or loss	9,924,610	-	-	9,924,610
- available-for-sale	41,191,570	-	-	41,191,570
- held-to-maturity	230,912	-	-	230,912
Other financial assets	402,036	1,361	785	404,182
	121,148,692	**13,783,800**	**243,607**	**135,176,099**
Liabilities				
Amounts due to the national bank of Ukraine	2,979,775	-	-	2,979,775
Amounts due to credit institutions	1,390,026	17,905,990	2,854	19,298,870
Amounts due to customers	78,011,047	397,151	909,745	79,317,943
Eurobonds issued	-	33,122,294	-	33,122,294
Subordinated debt	-	9,375,369	-	9,375,369
Other financial liabilities	41,275	44,714	292	86,281
	82,422,123	**60,845,518**	**912,891**	**144,180,532**
Net position	**38,726,569**	**(47,061,718)**	**(669,284)**	**(9,004,433)**
Commitments and contingencies	**5,494,694**	**4,234**	**12,000**	**5,510,928**

The following table sets forth information on the Bank's neither past due nor impaired loans, individually impaired loans, loans past due but not impaired, allowance for loan impairment and various ratios related to loan impairment as at 31 December 2015 and 2016.

	As at 31 December		Change from prior year
	2015	2016	2015
	(UAH thousands, except percentages)		
	(audited)	*(audited)*	*(%)*
Neither past due nor impaired loans	35,945,869	38,466,285	7.0
Loans past due but not impaired	2,741,421	35,953	(98.7)
Individually impaired loans	57,260,824	65,518,100	14.4
Gross loans and advances	95,948,114	104,020,338	8.4
Less: allowance for loan impairment	(40,848,211)	(45,550,807)	11.5
Total	**55,099,903**	**58,469,531**	6.1
	%	%	%
Allowance for loan impairment as a percentage of total gross loans	(42.6)	(43.8)	(1.2)
Allowance for loan impairment as a percentage of individually impaired and past due but not impaired loans	(68.1)	(69.5)	(1.4)
Individually impaired and past due but not impaired loans as a percentage of total gross loans	62.5	63.0	0.5

The following table sets forth information on the Bank's neither past due nor impaired loans individually impaired loans, loans past due but not impaired, allowance for loan impairment and various ratios related to loan impairment as at 30 June 2017:

	As at 30 June 2017	Change from year end 2016
	(UAH thousands) *(unaudited)*	*(%)*
Neither past due nor impaired loans	37,569,780	(2.3)
Loans past due but not impaired	971,163	2,601.2
Individually impaired loans	64,124,102	(2.1)
Gross loans and advances	102,665,045	(1.3)
Less: allowance for loan impairment	(45,818,333)	0.6
Total	**56,846,712**	(2.8)
	%	%
Allowance for loan impairment as a percentage of total gross loans	(44.6)	(0.8)
Allowance for loan impairment as a percentage of individually impaired and past due but not impaired loans	(70.4)	(0.9)
Individually impaired and past due but not impaired loans as a percentage of total gross loans	63.4	0.4

The following table sets out the changes in allowance for loan impairment, as at 31 December 2015, 2016 and the six months ended 30 June 2017.

	For the Year ended 31 December		For the six months ended 30 June 2017
	2015	2016	
	(UAH thousands)		*(UAH thousands)*
	(audited)	*(audited)*	*(unaudited)*
Allowance for loan impairment at the beginning of the year/period	23,187,109	40,848,211	45,550,807
Charge to allowance for loan impairment during the year/period	9,910,284	5,427,257	1,080,910
Loans written off during the year/period as uncollectible	(9,739)	(4,728,363)	(152)
Translation differences	7,755,082	3,881,635	(835,192)
Recoveries	5,475	122,067	21,960
Allowance for loan impairment at the end of the year/period	**40,848,211**	**45,550,807**	**45,818,333**

The following tables illustrate the allocation of the total allowance for loan impairment against total loans, including loans to banks by type as at 31 December 2015, 2016 and 30 June 2017.

	As at 31 December 2015			As at 31 December 2016		
			Ratio of			Ratio of
	Allowance	Total loans (gross)	Allowance to Total loans	Allowance	Total loans (gross)	Allowance to Total loans
	(UAH thousands) (audited)		*(%)*	*(UAH thousands) (audited)*		*(%)*
Loans to customers	(40,848,211)	95,948,114	42.6	(45,550,807)	104,020,338	43.8
Amounts due from credit institutions	(548,746)	4,632,489	11.8	(845,865)	2,390,341	35.4
Total	**(41,396,957)**	**100,580,603**	**41.2**	**(46,396,672)**	**106,410,679**	**43.6**

	As at 30 June 2017		
			Ratio of
	Allowance	Total loans (gross)	Allowance to Total loans
	(UAH thousands) (unaudited)		*(%)*
Loans to customers	(45,818,333)	102,665,045	44.6
Amounts due from credit institutions	(848,904)	3,673,366	23.1
Total	**(46,667,237)**	**106,338,411**	**43.9**

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an "incurred loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, an increased probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Deposits

The following table sets out as at 31 December 2015, 2016 and 30 June 2017 the types of deposits placed with the Bank:

	As at 31 December		As at 30 June
	2015	2016	2017
	(UAH thousands) (audited)	*(UAH thousands) (audited)*	*(UAH thousands) (unaudited)*
Current accounts			
Current accounts of credit institutions			
Current accounts to other banks	1,152,421	2,545,460	1,540,304
Correspondent account	1,948	659	732
Total	**1,154,369**	**2,546,119**	**1,541,036**
Current accounts of customers			
Budget financed organisations	4,699,932	4,424,952	5,078,351
Legal entities	13,526,606	17,638,612	20,851,832
Individuals	3,002,802	3,516,537	3,872,469
Due to funds under the Bank's management	13,718	8,077	1
Total	**21,243,058**	**25,588,178**	**29,802,653**
Total current accounts	**22,397,427**	**28,134,297**	**31,343,689**
Term Deposits			
Deposits of credit institutions			
Loans due to international financial organisations	14,045,679	21,878,151	19,919,412
Loans and deposits due to other banks	4,100,747	3,506,844	3,273,316
Loans due to the National Bank of Ukraine	2,977,827	-	-
Total	**21,124,253**	**25,384,995**	**23,192,728**
Deposits by customers			
Legal entities	36,643,285	39,218,415	39,587,196
Individuals	21,431,600	20,982,359	20,189,377
Budget financed organisations	-	-	319,000
Total	**58,074,885**	**60,200,774**	**60,095,573**
Other amounts due to credit institutions	23	274	14
Total term deposits	**79,199,161**	**85,586,043**	**83,288,315**

Investment portfolio

The following table sets out details of the Bank's investments securities designated at fair value through profit or loss as at 31 December 2015, 31 December 2016 and 30 June 2017.

	As at 31 December		As at 30 June
	2015	2016	2017
	(UAH thousands) (audited)	*(UAH thousands) (audited)*	*(UAH thousands) (unaudited)*
Ukrainian state bonds	9,924,610	24,064,110	27,213,686
Investment securities designated at fair value through profit or loss	**9,924,610**	**24,064,110**	**27,213,686**

The following table sets out details of the Bank's available-for-sale securities as at 31 December 2015, 31 December 2016 and 30 June 2017

	As at 31 December		As at 30 June
	2015	2016	2017
	(UAH thousands) (audited)	(audited)	(UAH thousands) (unaudited)
Corporate shares	11,690	11,690	16,374
Corporate bonds	2,388,565	2,018,739	1,583,545
Municipal bonds	1,628,039	-	-
Ukrainian state bonds	37,163,276	46,163,120	44,745,153
Available-for-sale investments	**41,191,570**	**48,193,549**	**46,345,072**

The following tables set out details of the Bank's held-to-maturity investment securities as at 31 December 2015, 2016 and 30 June 2017.

	As at 31 December			
	2015		2016	
	Nominal value	Carrying value	Nominal value	Carrying value
		(UAH thousands) (audited)		
Ukrainian state bonds	248,483	230,912	147,246	139,098
Held-to-maturity investments		**230,912**		**139,098**

	As at 30 June	
	2017	
	Nominal value	Carrying value
	(UAH thousands) (unaudited)	
Ukrainian state bonds	122,705	117,827
Held-to-maturity investments	**-**	**117,827**

Liquidity

The following tables show an analysis of assets and liabilities as at 31 December 2015 and 2016, respectively, by reference to its remaining maturity.

(*thousands of Ukrainian hryvnia*) (*audited*)	31 December 2015 Within one year	More than one year	Total	31 December 2016 Within one year	More than one year	Total
Assets						
Cash and cash equivalents	24,241,179	-	24,241,179	21,378,517	-	21,378,517
Due from credit Institutions	2,854,695	1,229,048	4,083,743	810,785	733,691	1,544,476
Loans to customers	30,713,229	24,386,674	55,099,903	36,136,670	22,332,861	58,469,531
Investment securities:						
Designated at fair value through profit or loss...	6,798,950	3,125,660	9,924,610	323,477	23,740,633	24,064,110
Available-for-sale	33,727,611	7,463,959	41,191,570	21,807,627	26,385,922	48,193,549
Held-to-maturity	59,097	171,815	230,912	6,032	133,066	139,098
Tax assets	293,122	-	293,122	101,677	-	101,677
Investment property	-	1,566,942	1,566,942	-	1,344,074	1,344,074
Property and equipment	-	2,170,944	2,170,944	-	2,120,672	2,120,672
Intangible assets	-	17,584	17,584	-	26,778	26,778
Deferred income tax asset	-	1,730,750	1,730,750	-	2,322,000	2,322,000
Other assets	797,253	-	797,253	697,747	-	697,747
Total Assets	**99,485,136**	**41,863,376**	**141,348,512**	**81,262,532**	**79,139,697**	**160,402,229**
Liabilities						
Amounts due to the National Bank of Ukraine	1,948	2,977,827	2,979,775	659	-	659
Amounts due to credit Institutions	2,168,271	17,130,599	19,298,870	5,959,202	21,971,527	27,930729
Amounts due to customers	78,143,111	1,174,832	79,317,943	85,101,559	687,393	85,788,952
Eurobonds issued	982,002	32,140,292	33,122,294	1,097,973	36,464,372	37,562,345
Subordinated debt	426,947	8,948,422	9,375,369	113,350	3,382,545	3,495,895
Provisions for other losses	22,213	-	22,213	5,137	-	5,137
Other liabilities	292,387	-	292,387	258,246	-	258,246
Total Liabilities	**82,036,879**	**62,371,972**	**144,408,851**	**92,536,126**	**62,505,837**	**155,041,963**
Net amount	**17,448,257**	**(20,508,596)**	**(3,060,339)**	**(11,273,594)**	**16,633,860**	**5,360,266**

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU.

The liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	As at 31 December		**As at 30 June**
	2016	**2015**	**2017**
	(%)	*(%)*	*(%)*
N4 "Instant Liquidity Ratio" (cash in hand, balances on nostro accounts with banks and unpledged deposit certificates of the National Bank of Ukraine / balances on customers' current accounts) (minimum required by the NBU – 20%)	45.3	64.7	59.9
N5 "Current Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	180.3	123.1	147.3
N6 "Short-Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	154.8	137.0	145.6

MANAGEMENT

Overview

The Bank's management bodies are the Supervisory Council and the Board. The Board is responsible for the day-to-day operational management of the Bank. The Supervisory Council selects and appoints a Monitoring Committee. A brief overview of the full members, functions and corporate powers of the Supervisory Council, Monitoring Committee and the Board are set out below.

The Supervisory Council

The Supervisory Council is not directly involved in the day-to-day operational management of the Bank but plays a significant role in supervising the activities of the Bank. The responsibilities of the Supervisory Council include the following:

- supervising the activities of the Board in order to protect the interests of the State as the sole shareholder of the Bank;
- setting guidelines and targets relating to the Bank's activities and approving reports relating to such guidelines and the attainment of targets;
- handling the appointment and resignation of the Chairman of the Board;
- handling the appointment and resignation of the members of the Board in accordance with the recommendations of the Chairman of the Board;
- approving the Bank's annual results, including those of any subsidiaries;
- approving the distribution of profits and the terms and procedures for the payment of dividends;
- taking decisions on covering losses;
- taking decisions with respect to the establishment, reorganisation and liquidation of the Bank's branches, representative offices and subsidiaries and approving regulations and statutes applicable to such branches, representative offices and subsidiaries, including certain decisions which are taken upon the recommendation of the Board;
- approval of the Bank entering into agreements in respect of significant disposals of the Bank's property, if the amount of such agreements exceeds 10 per cent. of the Bank's authorised capital, subject to further approval of the Bank's shareholder acting through the Cabinet of Ministers of Ukraine; and
- carrying out other functions prescribed by applicable Ukrainian legislation and the Bank's Charter.

The Supervisory Council consists of 15 members, an equal number of whom are appointed by each of the Verkhovna Rada (the Parliament of Ukraine), the Cabinet of Ministers of Ukraine and the President of Ukraine. Meetings of the Supervisory Council are quorate if attended by at least 10 of its members. The names of the current members of the Supervisory Council are set out below.

Members Appointed by the Cabinet of Ministers of Ukraine

The following members of the Supervisory Council were appointed by the Resolution of the Cabinet of Ministers of Ukraine No. 194 dated 08 April 2015:

- Roman Volodymyrovych Hreba (Head of the Supervisory Council);
- Artem Valentynovych Shevalev (Deputy Head of the Supervisory Council);
- Viacheslav Eduardovych Voloshyn; and
- Oksana Serhiivna Markarova.

Oleg Vasyliovych Parakuda was appointed as member of the Supervisory Council by the Resolution of the Cabinet of Ministers of Ukraine No. 70 dated 12 March 2014.

Members Appointed by the President of Ukraine

Tamara Stepanivna Smovzhenko was appointed as member of the Supervisory Council by the Decree of the President of Ukraine No. 363/2014 dated 2 April 2014.

Sergii Oleksiiovych Balchenko was appointed as member of the Supervisory Council by the Decree of the President of Ukraine No. 689/2014 dated 27 August 2014.

Oleg Volodymyrovych Batyuk was appointed as member of the Supervisory Council by the Decree of the President of Ukraine No. 374/2016 dated 30 August 2016.

Members Appointed by the Verkhovna Rada of Ukraine

The term of the office of the members of the Supervisory Council appointed by the Verkhovna Rada of Ukraine elapsed on 7 February 2012. As of the date of this Offering Circular, the Verkhovna Rada of Ukraine has not appointed new members of the Supervisory Council.

The business address of each member of the Supervisory Council is 127, Antonovycha Str., Kyiv, 03150, Ukraine.

Monitoring Committee

The Monitoring Committee supervises the Bank's compliance with legislation and regulations of the NBU, reviews the reports of external and internal auditors, prepares proposals for the Supervisory Council and submits proposals for consideration of the Supervisory Council relating to issues of financial security and stability of the Bank as well as the protection of customers' interests.

The Monitoring Committee inspects the financial and business activity of the Bank on the basis of an order of the Supervisory Council or a request of the Government acting as shareholder of the Bank. It prepares opinions on the reports and balance sheets of the Bank.

The Monitoring Committee has three members, appointed by the Supervisory Council of the Bank for a term of three years. The members at the date of this Offering Circular are as follows:

- Svitlana Mykhailivna Voitsekhovska (Head of the Monitoring Committee);
- Ruban Nataliia Ivanivna; and
- Duda Volodymyr Petrovych.

The Board

The Board, responsible for the daily management of the Bank, is the permanent executive body of the Bank and manages its operational activities. The Board is responsible for ensuring that the Bank operates within the framework established by the Bank's Charter.

The powers of the Board include, *inter alia*:

- the implementation of decisions taken by the Supervisory Council;
- the submission of matters to be considered by the Supervisory Council;
- the approval of the Bank's business plans, financial plans and budget estimates;
- the review of the Bank's annual financial report and balance sheet and submission thereof to the Supervisory Council for approval;
- setting the Bank's accounting and reporting standards, regulations, procedures and internal controls;

- the approval of the Bank entering into agreements in respect of significant disposals of the Bank's property if the amount of such agreements does not exceed 10 per cent. of the Bank's authorised capital; and

- carrying out other functions prescribed by applicable Ukrainian legislation and the Bank's Charter.

The Chairman of the Board and other members of the Board are appointed by the Supervisory Council. Each member of the Board is a full-time employee of the Bank. The name, position, qualifications, address and certain other information relating to each member of the Board is set out below:

Oleksandr V. Hrytsenko (Chairman of the Board) is responsible for overall supervision of the Bank, management and coordination of the Board, development and implementation of the Bank's personnel strategy.

Oleg V. Belinskyi (Deputy Chairman of the Board, Member of the Board) supervises settlement operations, back-office operations and banking operations methodology; is responsible for IT development, support, infrastructure and processing services, projects and the administration of the Bank's IT agreements.

Volodymyr M. Kotov (Deputy Chairman of the Board, Member of the Board) co-ordinates activities in the sphere of Bank security, economic security and protection of electronic information; supervises activities related to problem loans' and non-core assets' management; co-ordinates co-operation with court-appointed managers, appraisers, notaries public on problem indebtedness.

Svitlana M. Monastyrska (Deputy Chairman of the Board and Member of the Board) is responsible for the SME and retail business of the Bank; co-ordinates the Bank's regional network, e-banking development and public relations; and administers the activity of the Bank's subsidiaries, namely Ukreximleasing and Eximleasing;

Sergii M. Myskiv (Deputy Chairman of the Board and Member of the Board) is responsible for legal framework within the Bank.

Olga M. Alieksieieva (Member of the Board) is responsible for the Bank's compliance with accounting and tax policies; co-ordinates assets and liabilities management and general financial management; supervises analysis and planning in the Bank as well as administrative affairs and procurement.

Viktoriia O. Ruda (Member of the Board) is responsible for the Bank's corporate business as well as documentary operations and investment banking; supervises the Bank's treasury and securities operations; and oversees co-operation of the Bank with stock exchanges.

Oleksandr V. Shchur (Member of the Board) is responsible for international borrowings, IFI programs, co-operation with financial institutions and trade finance; and the coordination of activities of the representative offices of the Bank.

Oleksandr V. Sokolov (Member of the Board) is responsible for operational activity, cash operations and tariffs policy of the Bank; supervises financial monitoring compliance and is the Bank's officer responsible for financial monitoring implementation at the Bank.

The business address of each member of the Board is 127, Antonovycha Str., Kyiv, 03150, Ukraine.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Council or the Board owes to the Bank and such member's private interests or other duties.

RELATED PARTY AND GOVERNMENT RELATED TRANSACTIONS

For the purposes of the Bank's Financial Statements, parties are considered to be related if they are under common control or if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank applies substantially similar procedures for the approval of loans and the setting of limits on loans to related parties as it does for non-related parties.

The only two corporate borrowers related to the Bank are its subsidiaries Ukreximleasing and Eximleasing. Loans to Ukreximleasing and Eximleasing are priced at market rates. According to the Bank's records, as at 31 December 2016, four loan agreements amounted to UAH 69.4 million and eight loan agreements amounted to UAH 94.7 million had been entered into by the Bank with Ukreximleasing and Eximleasing respectively. In terms of volume, such records indicate that loans to Ukreximleasing and Eximleasing represented 0.07 per cent. and 0.1 per cent., respectively, of the Bank's gross loan portfolio.

As at 30 June 2017, four loan agreements amounting to UAH 66.9 million and six loan agreements amounted to UAH 70.9 million had been entered into by the Bank with Ukreximleasing and Eximleasing respectively (0.07 per cent. and 0.07 per cent. of the Bank's gross loan portfolio, respectively). Loans to subsidiaries have been secured with property owned by Ukreximleasing and Eximleasing.

During the course of 2016 and 2017, the Bank provided various consumer loans to individuals, including employees, on standard market terms. All loans provided to employees are subject to the same procedures and collateral requirements as those applicable to loans granted to non-related individuals.

The Bank has a number of state-owned (more than 50 per cent. owned by the state) entities among its customers and provides banking services and loan financing for such clients on equivalent commercial terms and conditions to those it applies to private sector clients. According to the Bank's records, as at 30 June 2017, gross loans to state-owned entities comprised 19.3 per cent. of the Bank's gross loan portfolio compared to 19.3 per cent. as at 31 December 2016 and 18.9 per cent. as at 31 December 2015.

Loans to one state-owned entity operating in the extractive industry constituted UAH 10,582 million (18.1 per cent. of the net loan portfolio) as at 31 December 2016 compared to UAH 9,437 million (17.1 per cent. of the net loan portfolio) as at 31 December 2015.

As at 30 June 2017, amounts due from the Bank to the NBU amounted to UAH 0.7 million compared to UAH 0.7 million and UAH 2,980 million as at 31 December 2016 and 2015, respectively. In July 2016, the Bank prepaid the full principal amount of loans due to the NBU that were expected to mature in June 2020. These loans were secured against loans to customers and investment securities.

Amounts due to one state-owned entity operating in the agriculture and food industry constituted UAH 27,359 million (31.9 per cent. of the total amounts due to customers) as at 31 December 2016 compared to UAH 25,459 million (32.1 per cent. of the total amounts due to customers) as at 31 December 2015.

Under Ukrainian legislation, the Bank, being entirely state owned, is obliged to distribute a part of its after tax profit to the State Budget as distribution of profit to the shareholder. This part is determined annually as a percentage of profits of Ukraine's state owned enterprises, including state banks, by special resolution of the Cabinet of Ministers of Ukraine.

THE ISSUER

Biz Finance PLC was incorporated in England and Wales on 18 February 2010 (registered number (07161659), as a public company with limited liability under the Companies Act 2006. The registered office of the Issuer is at 6th Floor, 65 Gresham Street, London EC2V 6JA. The telephone number for the Issuer is +44 (0) 207 204 7991. The Issuer has no subsidiaries. The Issuer has been established as a special purpose vehicle or entity for the purpose of issuing debt securities (including the Notes).

Principal Activities

The principal objects of the Issuer are set out in clause 2 of its Memorandum of Association and are, among other things, to acquire, hold and manage financial assets, to lend or advance money and to give credit to any persons (whether individuals or legal entities) for any purpose whatsoever within the United Kingdom or elsewhere, and whether secured (on any such property or otherwise) or unsecured, to carry on business as a financial institution, money lenders, bankers, capitalists, financiers and investors and to undertake all kinds of loans, financial commitments and other operations and to provide any type of financial services including without limitation lending and participation in securities issues and the provision of services related to such issues.

The Issuer will covenant to observe certain restrictions on its activities, which will be detailed in the terms and conditions of the Notes and the Trust Deeds.

The issued share capital in the Issuer is legally and beneficially owned and controlled directly by Link Trust Nominees No. 1 Limited, a limited liability company incorporated in England and Wales with registered number 05322518. The rights of Link Trust Nominees No. 1 Limited as a shareholder in the Issuer are contained in the articles of association of the Issuer, and the Issuer will be managed in accordance with those articles and with the provisions of English law.

Directors and Secretary

The directors of the Issuer and their respective business addresses and other principal activities are:

Name	Business Address	Principal Activity
Link Corporate Services Limited	The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU	Corporate Director
Link Trust Corporate Limited	The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU	Corporate Director
Sean Peter Martin	6th Floor, 65 Gresham Street, London EC2V 7NQ	Director

The company secretary of the Issuer is Link Trust Corporate Limited, a company incorporated in England and Wales (registered number 05322525), whose business address is The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Authorised and Issued Capital

The authorised and issued capital of the Issuer as at the date of this Offering Circular is as follows: 50,000 £1 shares issued to Link Trust Nominees No. 1 Limited.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had since the date of its incorporation, significant effects on the Issuer's financial position or profitability.

Financial Statements

The financial year of the Issuer ends on 31 December in each year. Since its date of incorporation, the Issuer has published its financial statements for each financial year from 31 December 2010 to 31 December 2016 in accordance with IFRS. The Issuer does not prepare interim financial statements.

Ernst & Young LLP are the Issuer's independent auditors. The address of Ernst & Young LLP is 25 Churchill Place, Canary Wharf, London E14 5EY. Ernst & Young LLP are registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

LOAN AGREEMENT

The following is the text of the Loan Agreement excluding the signature page and the schedules.

This Agreement is made on 28 February 2018

Between:

(1) **Joint Stock Company "The State Export-Import Bank of Ukraine"**, a joint stock company incorporated under the laws of Ukraine whose registered office is at 127 Antonovycha Street, Kyiv 03150, Ukraine, as borrower represented by Shchur O.V., Member of the Board and Kuzmych S.A., Head of International Borrowings Division, both acting on the basis of the Power of Attorney dated 15 March 2013, notarised by Lysan S.S., the Private Notary of the Kyiv City Notary District with register entry No. 507 (the "**Borrower**"); and

(2) **BIZ Finance plc,** a public limited company incorporated under the laws of England and Wales, whose registered office is at 6th Floor, 65 Gresham Street, London EC2V 7NQ, United Kingdom (the "**Lender**").

Whereas:

The Lender has at the request of the Borrower agreed to make available to the Borrower a credit facility in the amount of UAH 4,051,000,000.00 on the terms and subject to the conditions of this Agreement.

It is agreed as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Account**" means the account with the account number 2056198400 in the name of the Lender with The Bank of New York Mellon;

"Acceleration Date" means a date on which the Loan is declared due and payable pursuant to Clause 14.10 (*Acceleration*) hereof;

"**Additional Amounts**" has the meaning set forth in Clause 8.1 (*Additional Amounts*);

"**Affiliate**" of any specified Person means: (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person; (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any Person described in (a) above;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Auditors**" means CJSC Ernst & Young Ukraudit or Ernst & Young Audit Services LLC or any internationally recognised firm of accountants approved by the Lender, such approval not to be unreasonably withheld, it being understood that it shall be reasonable for the Lender to withhold such approval if the Trustee does not approve of such firm in accordance with the relevant provisions of the Funding Documents;

"**Authorised Signatory**" means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in Schedule 1 (*Conditions Precedent Documents*) hereto and, in the case of the Lender, a Person who is a duly authorised officer of the Lender, at the relevant time;

"**Banking Business**" means, in relation to the Borrower or any of its Subsidiaries, any type of banking business (including, without limitation, any inter-bank operations with maturities of 18 months or less, factoring, consumer credit and lending, commercial and residential property finance and mortgage lending, issuance of bank guarantees, letters of credit (and related cash cover provision), bills of exchange and promissory notes and making payments under such guarantees, letters of credit, bills and promissory notes, trading of securities, fund management and professional securities market participation) which it conducts or may conduct pursuant to its licence issued by the appropriate authorities, accepted market practice and any applicable law;

"**Borrowing Date**" means 2 March 2018 or such later date as may be agreed by the parties to this Agreement;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or any other equivalent of any of the foregoing (however designated) in relation to the share capital of a company and any and all equivalent ownership interests in a Person other than a company, in each case whether now outstanding or hereafter issued;

"**Change of Control**" shall be deemed to have occurred if:

(a) Ukraine, whether through the Cabinet of Ministers of Ukraine or any other Agency of Ukraine, ceases to own, legally and beneficially, at least 51 per cent. of the Capital Stock of, or otherwise to control, the Borrower; or

(b) an official public announcement is made by the Cabinet of Ministers or the State Property Fund of Ukraine of an intention that Ukraine would cease so to own or control the Borrower and: (i) within the Relevant Period (as defined in "Rating Decline" below) following such announcement there is a Rating Decline; and (ii) in the announcement of the Rating Decline the relevant Rating Agency specifies that the proposed change in ownership or control of the Borrower is a factor in its decision to decrease or downgrade the Borrower's rating;

"**Change of Control Payment Date**" means the date specified as such in the notice from the Lender to the Borrower pursuant to Clause 7.3 (*Prepayment in the event of a Change of Control*);

"**Change of Law**" means, following the Effective Date, any of the enactment or introduction of any new law; the variation, amendment or repeal of an existing or new law; any ruling on or interpretation or application by a competent authority of any existing or new law; and the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any law by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency; which, in each case, occurs after the date hereof. For this purpose, the term "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks, other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

(a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and

(b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law);

"**Effective Date**" means the date of this Agreement;

"**Event of Default**" means any circumstances described as such in Clause 14 (*Events of Default*);

"**Exchange Rate**" means: (i) the official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua) at or about 09.00 a.m. Kyiv time on the applicable Exchange Rate Determination Date; or (ii) if it is not possible to determine a rate pursuant to (i) above, the rate calculated pursuant to the Survey Method; or (iii) if it is not possible to determine a rate pursuant to (i) or (ii) above, the most recent official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua);

"**Exchange Rate Determination Date**" means any date specified as such herein, which shall be the date that is three Business Days prior to: (i) each relevant Interest Payment Date under the Funding Instruments; or (ii) such other date on which payment is to be made in accordance with the terms of this Agreement;

"**Fees Letter**" means any letter agreement between, *inter alios*, the Borrower and the Lender setting out the fees, expenses and certain other amounts payable by the Borrower in connection with this Agreement as amended, restated or supplemented;

"**Funding Documents**" means the Fees Letter, the subscription agreement dated 28 February 2018, the fees indemnity letter dated 2 March 2018, the trust deed dated on or about the Borrowing Date and/or the agency agreement dated on or about the Borrowing Date, in each case entered into in connection with the issue of the Funding Instruments and the Funding Instruments themselves;

"**Funding Instruments**" means the UAH 4,051,000,000.00 16.5 per cent. Loan Participation Notes due 2021 proposed to be issued by the Lender pursuant to the Funding Documents on the Borrowing Date for the purpose of funding the Loan;

"**Group**" means the Borrower and its Subsidiaries from time to time taken as a whole;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board, as amended, supplemented or re-issued from time to time;

"**IFRS Fiscal Period**" means any fiscal period for which the Borrower has produced consolidated financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for; *provided that*, any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary of another Person (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary of another Person will be deemed to be incurred or issued by the other Person or such Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such other Person or is so merged into such Subsidiary;

"**Indebtedness**" means any indebtedness for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of Capital Stock which is expressed to be redeemable; any amount raised under any other transaction having the economic effect of a borrowing (including any forward sale or purchase agreement) *provided that*, for the avoidance of doubt, such term shall not include any indebtedness owed to the State budget, any local budget or any non-budgetary fund of or in Ukraine for or on account of Taxes which are not overdue;

"**Indemnity Amounts**" has the meaning set out in Clause 8.3 (*Indemnity Amounts*);

"**Independent Appraiser**" means an investment banking firm or third party appraiser of international standing selected by the Borrower; *provided that* such firm or third party appraiser is not an Affiliate of the Borrower;

"**Interest Payment Date**" means 2 March and 2 September in each year in which the Loan remains outstanding or if any such day is not a Business Day, the next succeeding Business Day, commencing on 2 September 2018, with the last Interest Payment Date falling on the Repayment Date on 2 March 2021;

"**Interest Period**" means any of those periods mentioned in Clause 4 (*Interest Periods*);

"**Loan**" shall have the meaning given to such term in Clause 2.1 (*Grant of the Credit Facility*);

"**Material Adverse Effect**" means a material adverse change in, or material adverse effect on, the business, operations or financial condition of the Borrower or of the Group taken as a whole;

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Borrower: (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent at least 10 per cent. of the total assets or, as the case may be, total revenues of the Borrower and its Subsidiaries and for these purposes: (i) the total assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and (ii) the total assets and gross revenues of the Borrower shall be determined by reference to the Borrower's then most recent audited financial statements (or, if none, its then most recent management accounts), in each case prepared in accordance with IFRS; or (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Borrower which immediately before the transfer is a Material Subsidiary of the Borrower. A certificate by any two members of the board of the Borrower that, in their opinion, a Subsidiary of the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the board of the Borrower as to proper extraction of the figures used by the members of the board of the Borrower in determining the Material Subsidiaries of the Borrower and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties;

"**NBU**" means the National Bank of Ukraine;

"**Offering Circular**" means the offering circular dated on or about the date of this Agreement, relating to the issuance of the Funding Instruments by the Lender (in its capacity as issuer);

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two members of the board of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower and in the form set out in Schedule 2 (*Form of Officers' Certificate*) hereto;

"**Permitted Security Interests**" means:

(a) Security Interests arising in the ordinary course of Banking Business including, without limitation:

  (i) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which are standard or customary in the relevant market in connection with: (A) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals and/or securities; and (B) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities; and

  (ii) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo;

(b) Security Interests granted by third parties in favour of the Borrower or any of its Subsidiaries;

(c) Security Interests on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; *provided that* any such Security Interest secures only Indebtedness under such lease;

(d) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Borrower or becomes a Subsidiary of the Borrower; *provided that* such Security Interests were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of the Borrower already existing or any Subsidiary of the Borrower other than those of the surviving Person and its Subsidiaries or the Person acquired and its Subsidiaries;

(e) Security Interests already existing on assets or property acquired or to be acquired by the Borrower or a Subsidiary of the Borrower; *provided that* such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);

(f) Security Interests granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition); *provided that* the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(g) any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation, asset-backed financing or similar financing structure whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged primarily from such assets or revenues; *provided that* the Indebtedness or Guarantee so secured pursuant to this paragraph (g) at any one time shall not exceed an amount in any currency or currencies equivalent to 20 per cent. of the Borrower's loans to customers before allowances for impairment (calculated by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period) and subject as provided in Clause 13.6 (*Disposals*);

(h) any Security Interests arising by operation of law;

(i) any Security Interests not otherwise permitted by the preceding paragraphs (a) through (h), *provided that* the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed 10 per cent. of the Group's assets, determined by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period; and

(j) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, *provided that* the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means any event which may become (with the passage of time, the giving of notice and/or the making of a determination and/or the fulfilment of any other requirement) under this Agreement, an Event of Default;

"**Pricing Date Exchange Rate**" means UAH/USD 27.006610/1.000;

"**Principal Paying Agent**" means the party designated from time to time as principal paying agent under the Funding Documents;

"**Qualifying Jurisdiction**" means any jurisdiction, which is not included in the list of jurisdictions approved by the Resolution of the Cabinet of Ministers of Ukraine No. 1045, dated 27 December 2017 as at the Borrowing Date (as the same may be amended, replaced or re-enacted as at the Borrowing Date);

"**Rate of Interest**" means 16.5 per cent. per annum;

"**Rating Agency**" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("**S&P**"), Moody's Investors Service Limited ("**Moody's**"), Fitch Ratings Limited ("**Fitch**") or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender and the Trustee;

"**Rating Categories**" means: (i) with respect to S&P, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories (any of which may or may not include a "1", "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iii) the equivalent of any such categories of S&P or Moody's used by another rating agency (including, without limitation, Fitch), if applicable, and each such category is referred to herein as a "full" Rating Category;

"**Rating Decline**" means that at any time within 90 days (which period shall be extended so long as the long term foreign currency debt or deposit rating of the Borrower is under publicly announced consideration for possible downgrade by any Rating Agency and is referred to herein as the "**Relevant Period**") after an announcement by the Cabinet of Ministers or the State Property Fund of Ukraine as is referred to in the definition of Change of Control the long term foreign currency debt or deposit rating of the Borrower is decreased or downgraded by a Rating Agency by one or more full Rating Categories below such rating of the Borrower as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower by that Rating Agency after the date hereof);

"**Reference Currency Dealers**" means PJSC "Citibank" (Kyiv), PJSC "UkrSibbank" (Kyiv), PJSC "Commercial Bank PrivatBank" (Kyiv), PJSC "ING Bank Ukraine" (Kyiv) and JSC "Oschadbank" (Kyiv);

"**Relevant Event**" has the meaning given thereto in the Funding Documents;

"**Repayment Date**" means: (i) 2 March 2021; or (ii) in case of Clauses 7.1 (*Prepayment for Tax Reasons and Change in Circumstances*), 7.2 (*Prepayment for Illegality*) and 7.3 (*Prepayment in the event of a Change of Control*), the date specified in such Clauses, or, if such day is not a Business Day, the next succeeding Business Day;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and, for purposes of this definition, the term "securities" means any Capital Stock, debenture or other debt or equity instrument, or any derivative thereof, whether issued by any private or public company, any Agency or any supranational, international or multilateral organisation;

"**Reserved Rights**" has the meaning assigned to such term in the Funding Documents;

"**Same-Day Funds**" means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. Dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Specified Amount**" means U.S.$5,000,000;

"**Stock Exchange**" means the Irish Stock Exchange;

"**Subsidiary**" of a Person means another Person being a corporation or other business entity:

(a) which is controlled, directly or indirectly, by that first-named Person; or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by that first-named Person;

"**Survey Method**" means the method by which the Borrower will calculate the Exchange Rate using five exchange rate quotations received from the Reference Currency Dealers (one quotation per Reference Currency Dealer) on the relevant Exchange Rate Determination Date for the Specified Amount. The highest and the lowest of the five quotations shall be disregarded. The Exchange Rate shall be the arithmetic mean of the remaining three quotations (rounded to the nearest 4 decimal points, i.e. 0.00005 will be rounded up to 0.0001). If any of the Reference Currency Dealers are not in a position to provide a quotation for the Specified Amount, the Borrower will, in its discretion, acting in good faith and in a commercially reasonable manner, substitute such Reference Currency Dealer(s) with such number of replacement Reference Currency Dealer(s) as is necessary to ensure that a total of five exchange rate quotations for the Specified Amount are received. In the event of the adoption, giving, making or implementation of any law, regulation, notice, directive, order or decree, (in each case, whether or not having the force of law) announced and, or issued, after the date of this Agreement, by any government or regulatory authority or competent authority (including central banks) in Ukraine or in the United States, or the announcement that such adoption is to take place, which has the effect of imposing UAH/USD exchange rates that deviate materially from market rates obtainable in the Ukrainian interbank foreign exchange market, the Exchange Rate will be based on the exchange rates quoted by the Reference Currency Dealers as the rates at which the Specified Amount can be purchased with either UAH proceeds from investments of non-residents or UAH interest paid on investments of nonresidents. Notwithstanding the aforementioned, the Borrower shall calculate the Exchange Rate pursuant to this method provided at least three exchange rates are quoted by the Reference Currency Dealers;

"**Taxes**" means any taxes, levies, duties, imposts or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto);

"**Taxing Authority**" has the meaning set out in Clause 8.1 (*Additional Amounts*);

"**Trustee**" means the party designated from time to time as trustee under the Funding Documents;

"**UAH Loans Resolution**" means the Resolution of the Board of the National Bank of Ukraine "On Carrying Out Currency Transactions under Facilities, Loans Borrowed from Non-Residents on Special Terms" No. 12 dated 15 February 2018, as the same may be amended, replaced or re-enacted;

"**Ukraine**" means Ukraine and any province or political sub-division thereof or therein;

"**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland and any political sub-division or agency thereof or therein;

"**USD Positive Difference**" means the excess of the U.S. Dollar Equivalent of the principal amount of the Loan (or any part thereof) required to be repaid or prepaid by the Borrower to the Lender over the U.S. Dollar Equivalent of the principal amount of the Loan (or the respective part thereof) received by the Borrower on the Borrowing Date;

"**U.S. Dollar Equivalent**" means the amount of interest, principal or other amounts payable under this Agreement converted into U.S. Dollars on the basis of the relevant Exchange Rate or, for the purposes of the calculation of the principal amount of the Loan to be drawn down by the Borrower, the Pricing Date Exchange Rate; and

"**WHT Exemption Rule**" means exemption from Ukrainian withholding tax under Paragraph 47 of Subsection 4 Section XX "Transitionary Provisions" of the Tax Code of Ukraine.

1.2 Interpretation

Any reference in this Agreement to:

(a) the "**Borrower**" or the "**Lender**" includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;

(b) a "**Business Day**" means any day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments (including dealings in foreign currencies) in the principal financial centre for such currency;

(c) "**control**" when used with respect to any Person means the power to direct the management and policies of such Person or to control the composition of such Person's board or board of directors, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

(d) the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is hryvnia and the second currency is U.S. Dollars (or vice versa), at the official exchange rate of the NBU, at or about 10.00 a.m. (New York City time) or, as the case may be, 9.00 a.m.(Kyiv time) on such date for the purchase of the first currency with the second currency;

(e) a "**month**" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month; *provided that*, where any such period would otherwise end on a day which is not a business day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day and if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "months" shall be construed accordingly);

(f) a **"party"** means a party to this Agreement and includes its successors in title, permitted assigns and permitted transferees;

(g) the "**rights**" of the Lender in this Agreement shall be read as references to rights of the Trustee pursuant to the charge and assignment referred to in Clause 19.3 (*Assignments by the Lender*) except as in relation to the Reserved Rights as specified in the Funding Documents; and

(h) "**VAT**" means value added tax, including any similar tax which may be imposed in place thereof from time to time.

1.3 Currency References

"**U.S.$**", "**USD**" and "**U.S. Dollars**" denote the lawful currency of the United States of America and "**UAH**" and "**hryvnia**" denotes the lawful currency of Ukraine.

1.4 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 Headings

Clause and Schedule headings are for ease of reference only.

1.6 Amended Documents

Save where the contrary is indicated, any reference in this Agreement to any Funding Document or any other agreement or document shall be construed as a reference to such Funding Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, restated or supplemented.

2. The Loan

2.1 Grant of the Credit Facility

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term credit facility in the amount of UAH 4,051,000,000.00 financed through the issue by the Lender of Funding Instruments listed on the Stock Exchange for the purpose of making the Loan (the "**Loan**") and the Borrower hereby agrees to borrow such amount from the Lender on the Borrowing Date, subject as provided herein.

2.2 Purpose and Application

The Loan is intended to be used by the Borrower primarily to provide loans to its corporate customers and for general corporate purposes. Without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

3. Availability of the Loan

3.1 Draw-down

(a) Subject to the terms and conditions set out herein, the Loan will be available by way of a single draw-down in the amount of the U.S. Dollar Equivalent of the Loan which will be made by the Lender to the Borrower on the Borrowing Date by payment of the U.S. Dollar proceeds of the Loan to the Borrower's account with JP MORGAN CHASE BANK, N. A., New York, SWIFT: CHAS US 33, account number 400-124432, provided that the Loan will only be advanced if:

(i) the Lender has confirmed to the Borrower that it has received all of the documents listed in Schedule 1 hereto (*Conditions Precedent Documents*) and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree;

(ii) the Lender has received: (A) in full the amount of U.S.$ 150,000,314.74 being an amount in U.S. Dollars equivalent to the total principal amount of the Loan calculated on the basis of the Pricing Date Exchange Rate and equal to the gross proceeds of the Funding Instruments in accordance with the Funding Documents; and (B) in full the amount referred to in Clause 3.2 (*Fees*) below; and

(iii) as of the Effective Date: (A) no event has occurred or circumstance has arisen which would constitute an Event of Default or a Potential Event of Default; and (B) the representations and warranties set out in Clause 11 (*Representations and Warranties of the Borrower*) are true and accurate with respect to the facts and circumstances then subsisting.

(b) For the avoidance of doubt, the amount of the Loan in U.S. Dollars to be made available for draw-down on the Borrowing Date by the Lender to the Borrower shall be calculated based on the Pricing Date Exchange Rate.

3.2 Fees

The Borrower hereby agrees that it shall pay to the Lender, in Same-Day Funds, all amounts required to be paid by the Borrower to the Lender pursuant to and in accordance with the Fees Letter between the Borrower and the Lender dated 28 February 2018 by 4.30 p.m. London time on the Business Day preceding the Borrowing Date.

4. Interest Periods

(a) Interest shall accrue on the Loan from and including the Borrowing Date.

(b) Each period beginning on (and including) the Borrowing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date or the Repayment Date falling on 2 March 2021 is herein called an "**Interest Period**".

(c) Subject as provided in Clause 5.2 (*Accrual and Calculation of Interest Amount*), interest on the Loan will cease to accrue on the Repayment Date falling on 2 March 2021 unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before and after any judgment) on the outstanding principal amount of the Loan at the Rate of Interest to (but excluding) the date on which payment in full of the outstanding principal amount of the Loan is made.

5. Payment and Calculation of Interest

5.1 Payments of Interest

(a) The Borrower will pay to the Account an amount of interest equal to the U.S. Dollar Equivalent of each Interest Amount not later than 11.00 a.m. (New York City time) on the Business Day falling two Business Days prior to the Interest Payment Date on which such Interest Period ends.

(b) The Borrower shall give notice to the Lender, the Principal Paying Agent and the Trustee of the relevant Exchange Rate and the amount of U.S. Dollars payable, and in the absence of manifest error, such Exchange Rate and the amount of U.S. Dollars payable shall be binding on the Borrower, the Lender, the Principal Paying Agent and the Trustee.

(c) The "**Interest Amount**" shall be the interest amount in hryvnia accruing (semi-annually in arrear in respect of each Interest Period) on the outstanding UAH Principal Amount of the Loan from time to time at the Rate of Interest, calculated in accordance with the provisions of this Agreement (including, without limitation, Clause 5.2 (*Accrual and Calculation of Interest Amount*)).

5.2 Accrual and Calculation of Interest Amount

(a) The Borrower shall compute the Interest Amount on a monthly basis, subject to Clause 20.1 (*Evidence of Debt*).

(b) The Interest Amount in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the outstanding UAH Principal Amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest kopeck (half a kopeck being rounded upwards).

(c) The Interest Amount in respect of the Loan for any period other than an Interest Period shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5.3 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Loan outstanding on the last day of the relevant Interest Period is the same as the amount of the Loan outstanding on the day of the calculation.

6. Repayment

Except as otherwise provided herein, the Borrower shall not later than 11.00 a.m. (New York City time) two Business Days prior to the Repayment Date falling on 2 March 2021, repay in full the U.S. Dollar Equivalents of: (i) the outstanding principal amount of the Loan together with, to the extent not already paid; (ii) all accrued and unpaid interest (if any) thereon in accordance with Clause 5 (*Payment and Calculation of Interest*); and (iii) all other amounts outstanding hereunder (if any).

7. Prepayment upon the Occurrence of Certain Events

7.1 Prepayment for Tax Reasons and Change in Circumstances

If:

(a) as a result of the application of or any amendment to or change in official interpretation of the laws or regulations (including the WHT Exemption Rule) of the United Kingdom or Ukraine (or any Qualifying Jurisdiction where the Lender is resident for tax purposes) or of any political sub-division thereof or any authority therein having power to tax or any Agency therein, the Borrower would thereby be required to pay Additional Amounts in respect of Taxes as provided in Clause 8.1 (*Additional Amounts*) or Indemnity Amounts as provided in Clause 8.3 (*Indemnity Amounts*); or

(b) the Lender ceases to be resident for tax purposes in a Qualifying Jurisdiction and as a result the Borrower would be required to withhold or deduct an amount on account of tax from any payment to be made under this Agreement, or the Lender has a permanent establishment in Ukraine; or

(c) (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10 (*Changes in Circumstances*); or

(d) after a Relevant Event, the Borrower is or would be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 8.1 (*Additional Amounts*) as a result of such payments being made to any person other than the Lender to whom the benefit of the WHT Exemption Rule is unavailable,

and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (unless such repayment would be prohibited by Ukrainian legislation effective as at the proposed date of such repayment), upon not less than 30 days' written notice to the Lender and to the Trustee specifying the date of payment and including an Officers' Certificate to the effect that the Borrower would be required in the case of (a), (c) and (d) above to pay the U.S. Dollar Equivalents of such Additional Amounts, Indemnity Amounts or additional amounts, and in the case of (b) above to withhold or deduct such amounts and such obligation cannot be avoided by the Borrower taking reasonable measures, supported (where the certification relates to tax matters) by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction, repay the U.S. Dollar Equivalent of the outstanding principal amount of the Loan in whole (but not in part) together with the U.S. Dollar Equivalents of any Additional Amounts then payable under Clause 8.1 (*Additional Amounts*), Indemnity Amounts payable under Clause 8.3 (*Indemnity Amounts*), additional amounts payable pursuant to Clause 10 (*Changes in Circumstances*) and accrued and unpaid interest (up to but excluding the date of such repayment) calculated in accordance with Clause 5.2 (*Accrual and Calculation of Interest Amount*). Any such notice of repayment given by the Borrower shall be irrevocable and shall oblige the Borrower to make such repayment on such date. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obliged to pay the U.S. Dollar Equivalents of such Additional Amounts, Indemnity Amounts or additional amounts, or deduct or withhold such amounts, as the case may be.

7.2 Prepayment for Illegality

If, at any time, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency of any state or otherwise for the Lender to make, fund or allow all or part of the Funding Instruments or the Loan to remain outstanding or for the Lender to maintain or give effect to any of its obligations or rights in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Loan (an "**Illegality**"), then the Lender shall deliver to the Borrower a written notice (with a copy to the Trustee) (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

(a) if the Loan has not been made, the Lender shall not thereafter be obliged to make the Loan; and

(b) if the Loan is then outstanding and, if the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or on such earlier day as the Borrower elects (as notified to the Lender not less than 30 days prior to the date of repayment), repay the U.S. Dollar Equivalent of the whole (but not part only) of the outstanding principal amount of the Loan together with the U.S. Dollar Equivalents of: (i) the accrued and unpaid interest (up to but excluding the date of such payment) thereon calculated in accordance with Clause 5.2 (*Accrual and Calculation of Interest Amount*); and (ii) all other amounts owing to the Lender hereunder.

7.3 Prepayment in the event of a Change of Control

The Borrower shall notify the Lender promptly upon the occurrence of a Change of Control. In the event of a Change of Control, the Borrower may be required to repay the U.S. Dollar Equivalents of the outstanding principal amount of the Loan together with all accrued and unpaid interest and any other amounts outstanding hereunder on the Change of Control Payment Date, to the extent and in the amount that the Lender is required to pay the holders of the Funding Instruments as a result thereof as set forth in a written notice from the Lender to the Borrower (with a copy to the Trustee), including computation of such amount and specifying the Change of Control Payment Date, given at least five Business Days prior to the Change of Control Payment Date. Taking into account the terms of the Funding Instruments, the Lender shall, where reasonably practicable, specify a Change of Control Payment Date which falls before the date on which the actual Change of Control (as provided in paragraph (a) of the definition of that term) takes place.

7.4 Costs of Prepayment

The Borrower shall, not later than 11.00 a.m. (New York City time) two Business Days prior to the date of repayment made in accordance with Clause 7 (*Prepayment upon the Occurrence of Certain Events*), pay the U.S. Dollar Equivalents of all accrued and unpaid interest (calculated in accordance with Clause 5 (*Payment and Calculation of Interest*) to (but excluding) the date of repayment) and all other amounts owing or payable to the Lender hereunder. The Borrower shall indemnify the Lender on written demand against any administrative costs and legal expenses reasonably incurred and properly documented by the Lender on account of any payment made in accordance with this Clause 7 (*Prepayment upon the Occurrence of Certain Events*).

7.5 Purchase of Funding Instruments and Reduction of the Loan upon cancellation of Funding Instruments

The Borrower or any member of the Group may from time to time deliver or cause to be delivered to the Lender, as issuer of the Funding Instruments, Funding Instruments, together with a request for the Lender to present such Funding Instruments to the Principal Paying Agent for cancellation, and may from time to time procure the delivery to the Principal Paying Agent of a Global Note (as such term is defined in the Funding Documents) with instructions to cancel a specified aggregate principal amount of Funding Instruments represented thereby, whereupon the Lender, as issuer of the Funding Instruments, shall request the cancellation of such Funding Instruments (or specified aggregate principal amount of Funding Instruments represented by such Global Note) as provided in the Funding Documents. Upon any such cancellation a principal amount of the Loan equal to the principal amount of such Funding Instruments shall be deemed to have been repaid as of the date of such cancellation and no further payment shall be made or required to be made by the Borrower in respect of such amounts. The Borrower shall, upon the request of the Lender or the Trustee from time to time, advise the person making the request of the aggregate principal amount of Funding Instruments then held by or on behalf of the Borrower.

7.6 No Other Prepayment

Unless the Borrower and the Lender agree otherwise, the Borrower shall not prepay, and the Lender shall not be entitled to demand prepayment of, the whole or any part of the outstanding principal amount of the Loan except at the times and in the manner expressly provided for in this Agreement.

7.7 No Reborrowing

No amount prepaid under this Agreement may be reborrowed.

8. Taxes

8.1 Additional Amounts

(a) All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim, free and clear of and without deduction for or on account of any present or future Taxes imposed by any taxing authority of or in, or having authority to tax in, Ukraine, the United Kingdom or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes (each a "**Taxing Authority**"), unless the Borrower is required by applicable law to make such payment subject to the deduction or withholding of such Taxes. In the event that the Borrower is required to make any such payment subject to deduction or withholding of any such Tax the Borrower shall, on the due date for such payment, pay the U.S. Dollar Equivalent of such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender, receives a net amount in U.S. Dollars which, following any such deduction or withholding on account of Taxes, shall be not less than the U.S. Dollar Equivalent of the full amount which it would have received had the payment been made without such deduction or withholding and shall deliver to the Lender without undue delay, evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant authority.

(b) Notwithstanding the foregoing paragraph (a), the Borrower shall not be obliged to pay the U.S. Dollar Equivalent of any Additional Amounts:

(i) if and to the extent that the relevant withholding or deduction is required following and on account of a Relevant Event; or

(ii) in relation to Ukrainian withholding tax that is required to be withheld or deducted in respect of the amount of the USD Positive Difference.

(c) At least 30 calendar days prior to each date on which any payment under or with respect to the Loan is due and payable, if the Borrower will be obliged to pay the U.S. Dollar Equivalent of Additional Amounts with respect to such payment (upon and subject to written notice by the Lender, the Borrower will deliver to the Lender an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.

(d) Whenever this Agreement mentions, in any context, the payment of amounts based upon the principal or premium, if any, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any Additional Amounts and Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any Taxing Authority in any jurisdiction in which any successor obligor to the Borrower is organised.

8.2 Tax Relief

(a) The Borrower shall claim relief from deducting withholding tax or a reduction in the withholding tax rate to the maximum extent possible in accordance with the WHT Exemption Rule in respect of payments to be made by the Borrower under this Agreement.

(b) Each of the Lender and the Borrower shall make reasonable and timely efforts to co- operate and assist each other in obtaining relief from withholding of Ukrainian income tax pursuant to the WHT Exemption Rule which shall, for the avoidance of doubt, include (but not be limited to) the Lender making reasonable and timely efforts to:

(i) furnish the Borrower with such information or forms (including a power of attorney in form and substance acceptable to the Borrower authorising it to file documents provided by the Lender to the Borrower with the relevant taxing authority on behalf of the Lender) to enable the Borrower to apply to obtain relief from deduction or withholding of Ukrainian tax, and

(ii) procure that each document provided by the Lender to the Borrower is apostilled or otherwise legalised.

(c) Nothing contained in this Clause 8.2 shall interfere with the right of the Lender to arrange its affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its affairs generally. The Borrower and the Lender will inform each other, in a reasonable and timely manner, on the status of the procedures and the steps necessary to be taken in pursuance of this Clause 8.2. The Lender makes no representation as to the application or interpretation of the WHT Exemption Rule or any of its qualifying criteria.

(d) If the Lender becomes resident for tax purposes in another Qualifying Jurisdiction, references in paragraphs (a) and (b) above to taxing authority of the United Kingdom shall be read, respectively, as including references to the taxing authority of the Qualifying Jurisdiction.

8.3 Indemnity Amounts

Without prejudice to or duplication of the provisions of Clause 8.1 (*Additional Amounts*), if the Lender notifies the Borrower that:

(a) it is obliged to make any deduction or withholding for or on account of any Taxes from any payment which the Lender (as issuer of the Funding Instruments) is obliged to make under or in respect of the Funding Instruments or any Funding Document and the Lender (as issuer of the Funding Instruments) is required under the terms and conditions of the Funding Instruments or such Funding Document to pay additional amounts to the holders of the Funding Instruments in connection therewith, the Borrower shall pay to the Lender within 30 days of such notice (and otherwise in accordance with the terms of this Agreement) such additional amounts in U.S. Dollars as are equal to the additional payments which the Lender (as issuer of the Funding Instruments) would be required to make under the terms and conditions of the Funding Instruments or such Funding Document, assuming in each case that an equivalent amount had been received from the Borrower, in order that the net amount received by each holder of Funding Instruments or other party to the relevant Funding Document is equal to the amount which such holder or party would have received had no such withholding or deduction been required to be made; and/or

(b) it is obliged to pay any Taxes imposed by a Taxing Authority (other than UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisations Companies Regulations 2006 (SI 2006/3296)) in relation to this Agreement, the Funding Instruments or any Funding Document, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, a written demand made by the Lender, indemnify the Lender in relation to such properly documented payment or liability.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

8.4 Tax Claims

If the Lender intends to make a claim pursuant to Clause 8.3 (*Indemnity Amounts*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make the relevant withholding, deduction or payment; *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 Tax Credits and Tax Refunds

If a payment is made under Clauses 8.1 (*Additional Amounts*) or 8.3 (*Indemnity Amounts*) by the Borrower for the benefit of the Lender and the Lender determines in its absolute discretion (acting in good faith) that it has received or been granted a credit against, a relief or remission for or a repayment of, any Taxes, then, if and to the extent that the Lender, in its absolute discretion (acting in good faith), determines that such credit, relief, remission or repayment is in respect of or calculated by reference to the corresponding deduction, withholding liability, expense, loss or payment giving rise to such payment by the Borrower, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its absolute discretion (acting in good faith), have concluded to be attributable to such deduction, withholding, liability, expense, loss or payment; provided that the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of any such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its Tax affairs for its Tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and further provided that the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so would leave it (after the payment) in a worse after-Tax position than it would have been in had the payment not been required under Clauses 8.1 (*Additional Amounts*) or 8.3 (*Indemnity Amounts*). Without prejudice to the Lender's obligations under Clause 8.2 (*Tax Relief*), nothing contained in this Clause 8.5 shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computations in respect thereof.

8.6 Tax Position of the Lender

The Lender represents that it: (i) is a resident in the United Kingdom for United Kingdom tax purposes as a result of being a United Kingdom incorporated company and is subject to taxation in the United Kingdom; (ii) does not have a permanent establishment in Ukraine; and (iii) is not a resident in any jurisdiction other than the United Kingdom; and (iv) does not have any current intentions to effect during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident in the United Kingdom or becoming a resident in any other jurisdiction.

9. Tax Receipts

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

(a) The Borrower will use its reasonable endeavours to provide the Lender with Tax receipts evidencing the payment of any Taxes deducted or withheld by it from each Tax Authority imposing such Taxes or, if such receipts are not obtainable, other evidence of such payments by the Borrower reasonably acceptable to the Lender. The Borrower will also provide English translations of such receipts.

(b) The Lender will use its reasonable endeavours to provide the Borrower with Tax receipts evidencing the payment of any Taxes deducted or withheld by it from each Tax Authority imposing such Taxes or, if such receipts are not obtainable, other evidence of such payments by the Lender reasonably acceptable to the Borrower.

10. Changes in Circumstances

10.1 Increased Costs

If, by reason of any Change of Law, other than a Change of Law which relates to the basis of computation of, or rate of, Tax on, the net income of the Lender:

(a) the Lender incurs an additional cost as a result of the Lender entering into or performing its obligations (including its obligation to make the Loan) under this Agreement other than UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SE 2006/3296)); or

(b) the Lender becomes liable to make any additional payment on account of Taxes or otherwise (other than UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SE 2006/3296) or the amounts due pursuant to the Fees Letter) on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Indemnity Amounts*),

then the Borrower shall, from time to time within 30 days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented cost or liability, provided that the Lender will not be entitled to indemnification where such additional cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender and provided, further, that the amount of such increased cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*) above) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the increased costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

10.3 Mitigation

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clauses 8.1 (*Additional Amounts*) or 8.3 (*Indemnity Amounts*) or this Clause 10 (*Changes in Circumstances*), then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without material prejudice to its own position, take reasonable steps to avoid or mitigate the effects of such circumstances including (without limitation) by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank.

11. Representations and Warranties of the Borrower

The Borrower makes the representations and warranties set out in Clause 11.1 (*Status; Material Subsidiaries*) to Clause 11.14 (*Compliance with Laws*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Status; Material Subsidiaries

It validly exists under Ukrainian law, has full power and authority to own, lease and operate its properties and conduct its business as currently conducted and is able lawfully to execute and perform its obligations under this Agreement. At the date of this Agreement the Borrower has no Material Subsidiaries.

11.2 Governmental Approvals

Save as provided in Clause 13.1 (*Maintenance of Legal Validity*), all actions or things required to be taken, fulfilled or done by the applicable laws and regulations of Ukraine (including, without limitation, the obtaining of any authorisation, order, licence or qualification of or with any court or governmental agency) and all registrations, filings or notarisations required by the laws and regulations of Ukraine in order to ensure: (i) that the Borrower and each of its Subsidiaries is able to own its assets and carry on its business as currently conducted and, if not, the absence of which could not reasonably be expected to have a Material Adverse Effect; and (ii) the due execution, delivery, validity and performance by the Borrower of this Agreement has been obtained, fulfilled or done and is in full force and effect.

11.3 Pari Passu Obligations

Under the laws of Ukraine in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement will rank at least pari passu in right of payment with the claims of all its other unsecured and unsubordinated creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

11.4 No Deduction

Without prejudice to the provisions of Clause 8.1 (*Additional Amounts*), under the laws of Ukraine in force at the date of this Agreement, in accordance with the terms of the WHT Exemption Rule and subject to the due satisfaction by the payee of all conditions set forth therein, payments of interest by the Borrower to the payee under this Agreement may be made without deduction on account of the generally applicable withholding tax (at a rate of 15 per cent.) or any other Taxes established by applicable Ukrainian legislation.

11.5 Governing Law

Under the laws of Ukraine in force at the date of this Agreement, in any proceedings taken in Ukraine in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitral award with respect to this Agreement obtained in the United Kingdom will be recognised and enforced in Ukraine after compliance with the applicable procedural rules in Ukraine.

11.6 Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

11.7 Valid and Binding Obligations

The obligations expressed to be assumed by the Borrower in this Agreement will be legal, valid and binding, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganisation moratorium and similar laws relating to or affecting creditors' rights generally and to general principles of equity, enforceable against it in accordance with its terms.

11.8 No Stamp Taxes

Under the laws of Ukraine in force at the date of this Agreement, the execution and delivery of this Agreement and any Funding Document is not subject to any registration tax, stamp duty or similar levy imposed by any Taxing Authority of or in, or having authority to tax in, Ukraine.

11.9 No Default

No event has occurred and is continuing or circumstance has arisen and is continuing which would constitute an Event of Default or a Potential Event of Default.

11.10 No Material Proceedings

There are no legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might have a Material Adverse Effect.

11.11 No Material Adverse Change

Save as disclosed in the Offering Circular, since 30 June 2017, there has been no material adverse change, or any development involving a prospective material adverse change of which the Borrower is or might reasonably be expected to be aware, in the business, financial condition or results of operations of the Group.

11.12 Financial Statements

The financial information of the Borrower has been derived, unless otherwise indicated, from its audited consolidated financial statements and the notes thereto as at and for the years ended 31 December 2015 and 31 December 2016, which have been prepared in accordance with IFRS issued by the International Accounting Standards Board. The condensed interim consolidated financial information as at and for the six-month period ended 30 June 2017 and the nine-month period ended 30 September 2017 has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

11.13 Execution of Agreements

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

(a) conflict with or result in a breach of any of the terms of, or constitute a default under, any material instrument, agreement or order to which the Borrower is a party or by which it or its properties is bound; or

(b) conflict with the provisions of the constitutional documents of the Borrower or any resolution of its shareholders; or

(c) give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower, which, in any case, could reasonably be expected to have a Material Adverse Effect on the Borrower's ability to perform its obligations under this Agreement.

11.14 Compliance with Laws

The Borrower and each of its Subsidiaries are in compliance with, in all material respects, all applicable laws and regulations.

11.15 Repetition

Each of the representations and warranties contained in this Clause 11 shall be deemed to be repeated by the Borrower on the Borrowing Date.

12. Representations and Warranties of the Lender

The Lender makes the representations and warranties set out in Clause 8.6 (*Tax Position of the Lender*) and this Clause 12 and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status

The Lender is a public limited company duly incorporated under the laws of the United Kingdom and is resident for United Kingdom taxation purposes in the United Kingdom and has full corporate power and authority to enter into this Agreement and each Funding Document and to undertake and perform the obligations expressed to be assumed by it herein and therein. Pursuant to its constitutional documents, the Lender may lend money to any persons for any purpose whatsoever.

12.2 Authorisation

Each of this Agreement and each Funding Document has been duly authorised, executed and delivered by the Lender and is a legal, valid and binding obligation of the Lender, enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and to general principles of equity.

12.3 Consents and Approvals

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and each Funding Document and the performance by the Lender of the obligations expressed to be undertaken in such agreements have been obtained and are in full force and effect.

12.4 No Conflicts

The execution of this Agreement and each Funding Document and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of England and Wales.

13. Covenants

The covenants in this Clause 13 remain in force from the date of this Agreement for so long as the Loan or any part of it is or may be outstanding.

13.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the applicable laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement (including in respect of any payments due hereunder) to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement.

13.2 Notification of Default

The Borrower shall promptly inform the Lender and the Trustee on becoming aware of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a written request to that effect from the Lender or the Trustee, confirm to the Lender and the Trustee that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

13.3 Claims Pari Passu

The Borrower shall ensure that at all times the claims of the Lender and the Trustee against it under this Agreement rank at least pari passu in right of payment with the claims of all other unsecured and unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

13.4 Negative Pledge

The Borrower shall not and shall not permit any of its Material Subsidiaries, directly or indirectly, to create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless the Loan is secured equally and rateably with such other Indebtedness or Guarantee or otherwise as approved by the Lender and the Trustee.

13.5 Mergers

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior written consent of the Lender and the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed under applicable Ukrainian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction would result in a Material Adverse Effect, provided that, the Borrower may in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge with or into, or convey, transfer, lease, or otherwise dispose of, all or substantially all of the Borrower's properties or assets (determined on a consolidated basis), to any Subsidiary of the Borrower, where the resulting, surviving or transferee Person (the "**Successor Entity**"), shall be the Borrower or, if not the Borrower, shall be a Person organised and validly existing under the laws of Ukraine and such Successor Entity, if not the Borrower, shall expressly assume, by an agreement supplemental to this Agreement in form and substance satisfactory to the Lender and the Trustee, executed and delivered to the Lender and the Trustee, the due and punctual payment of the principal and interest under this Agreement and the performance and observance of every covenant of the Borrower under this Agreement.

13.6 Disposals

(a) Without prejudice to the provisions of Clause 13.7 (*Transactions with Affiliates*), the Borrower shall not, and shall ensure that none of its Material Subsidiaries will, within a 12 month period, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets which together constitute more than 10 per cent. of the gross assets of the Group unless such transaction(s) is/are on an arm's-length basis and has/have been approved by a decision adopted by the competent governing body of the Borrower or the relevant Material Subsidiary (as the case may be).

(b) This Clause 13.6 shall not apply to (i) any sale, lease, transfer or other disposition of any assets of the Borrower or property pledged as collateral by or to the Borrower or any of its Subsidiaries in the ordinary course of the Borrower's or, as the case may be, the relevant Subsidiary's business, (ii) any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure whereby all payment obligations are to be discharged primarily from such assets or revenues provided that principal amount raised pursuant to any financing referred to in this sub-clause (ii) when aggregated with the principal amount of any previous and then outstanding such financing and the then outstanding principal amount of any Indebtedness or Guarantee referred to in the proviso to paragraph (g) of the definition of Permitted Security Interest does not exceed an amount equal to 20 per cent. of the Borrower's loans to customers before allowances for impairment (calculated by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period) or (iii) any compensation or employee benefit arrangements with any officer or director of the Borrower or any of its Subsidiaries arising as a result of their employment contract.

13.7 Transactions with Affiliates

(a) The Borrower shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including intercompany loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries.

(b) With respect to an Affiliate Transaction involving aggregate payments or value in excess of U.S.$15,000,000, the Borrower shall deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower, provided that in no event shall the aggregate amount of all Affiliate Transactions exceed 35 per cent. of the Group's assets, determined by reference to the Borrower's consolidated balance sheet as at the end of its most recent IFRS Fiscal Period.

(c) This Clause 13.7 shall not apply to: (i) any Affiliate Transaction made pursuant to a contract existing on the date hereof and advised in writing to the Lender (excluding any amendments or modifications thereof made after the date hereof); or (ii) transactions between or among all or any of the Borrower and/or its Subsidiaries and paragraph (b) of this Clause 13.7 shall not apply to any Affiliate Transaction where the Affiliate in question is an Agency of Ukraine or a Person which is Subsidiary of an Agency of Ukraine.

13.8 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Material Subsidiaries pay or discharge or cause to be paid or discharged, before the same shall become overdue all Taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Material Subsidiaries; provided that, none of the Borrower nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim: (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made: or (ii) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$1,000,000 (or its equivalent in other currencies).

13.9 Financial Information

(a) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 180 days after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IFRS and together with the report of the Auditors thereon.

(b) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 90 days after the end of the first six months in each of its financial years, copies of the Borrower's unaudited interim consolidated financial statements for six months, reviewed by the Auditors in accordance with IFRS and together with the review report of the Auditors thereon.

(c) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 90 days after the end of each first and third quarter of each of its financial years, copies of the Borrower's unaudited interim consolidated financial statements for three and nine months (as applicable), prepared in accordance with IFRS.

(d) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower as the Lender or the Trustee may reasonably request.

(e) The Borrower hereby undertakes that it will supply or procure to be supplied to the Lender (in sufficient copies as may reasonably be required by the Lender) with a copy to the Trustee all such information as the Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Funding Instruments may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading of the Funding Instruments.

13.10 Maintenance of Capital Adequacy

The Borrower shall not, and shall ensure that each Subsidiary which carries on a Banking Business shall not, permit its total capital adequacy ratio to fall below the minimum total capital adequacy ratio permitted by the NBU and, in the case of a Subsidiary which carries on a Banking Business outside Ukraine, the relevant banking authority responsible for setting and/or supervising capital adequacy for financial institutions in the relevant jurisdiction in which such Subsidiary carries on its Banking Business.

13.11 Limitation on restrictions on distributions from Material Subsidiaries

The Borrower shall not, and shall not permit any of its Material Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Subsidiary:

(a) to pay dividends or make any other distributions on its share capital;

(b) to make any loans or advances or pay any Indebtedness owed to the Borrower; or

(c) to transfer any of its property or assets to the Borrower,

other than, in each case, encumbrances or restrictions existing under applicable law, any Funding Document or any other agreement in effect prior to the date hereof and advised in writing to the Lender.

13.12 Compliance Certificates

On each Interest Payment Date, the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Event of Default or Potential Event of Default has occurred and, if it has occurred and shall be continuing, the action the Borrower is taking or proposes to take with respect thereto.

14. Events of Default

Each of Clause 14.1 (*Failure to Pay*) to Clause 14.9 (*Analogous Events*) describes the circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Events of Default shall occur and be continuing, the Lender (or the Trustee, upon obtaining the rights of the Lender under this Agreement following a Relevant Event) shall be entitled to the remedies set forth in Clause 14.10 (*Acceleration*).

14.1 Failure to Pay

The Borrower fails to pay any sum due from it hereunder at the time, in the currency and in the manner specified herein (including, without limitation, where the Borrower is unable to make a payment in hryvnia as contemplated by Clause 17.2 (*Hryvnia Payments*)), and such failure is not remedied within five Business Days of the due date for payment.

14.2 Obligations

The Borrower fails duly to perform or comply with, or is otherwise in breach of any other of its obligations (other than set out in Clause 14.1 (*Failure to Pay*)) expressed to be assumed by it in this Agreement and such failure or breach is not remedied within 15 days after the Lender (or, following a Relevant Event, the Trustee) has given notice of it to the Borrower requiring the same to be remedied.

14.3 Cross Acceleration

Any Indebtedness of the Borrower or any of its Subsidiaries becomes due and payable prior to the stated maturity thereof (other than at the option of the debtor) or the Borrower or any of its Subsidiaries shall fail to make any payment of principal in respect of any Indebtedness of the Borrower or any of its Subsidiaries or to make any payment under any Guarantee of any Indebtedness on the date on which such payment is due and payable or by the expiration of any grace period originally applicable thereto, unless the aggregate amount of Indebtedness relating to all the above events is less than U.S.$10,000,000 (or its equivalent in any other currency).

14.4 Validity and Illegality

The validity of this Agreement is contested by the Borrower or the Borrower shall deny any of its obligations under this Agreement or (save as provided in Clause 13.1 (*Maintenance of Legal Validity*)) it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under this Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding in a manner which has a material adverse effect on the rights or claims of the Lender or, following a Relevant Event, the Trustee under this Agreement.

14.5 Authorisations

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or (save as provided in Clause 13.1 (*Maintenance of Legal Validity*)) perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender or, following a Relevant Event, the Trustee under this Agreement.

14.6 Revocation of Licence; Insolvency

(a) The occurrence of any of the following events: (i) revocation of the general banking licence of the Borrower or, if applicable, of any of its Subsidiaries; (ii) any of the Borrower or any of its Material Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commission or a similar officer of any of the Borrower or any of its Material Subsidiaries, as the case may be; (iii) the presentation or filing of a petition in respect of any of the Borrower or any of its Material Subsidiaries in any court, arbitration court or before any agency alleging or for the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceeding) of any of the Borrower or any of its Material Subsidiaries; (iv) the institution of the supervision, external management, bankruptcy management of any of the Borrower or any of its Material Subsidiaries; (v) the convening or announcement of an intention to convene a meeting of creditors of any of the Borrower or any of its Material Subsidiaries for the purposes of considering an amicable settlement and/or (vi) any extra judicial liquidation or analogous act in respect of any of the Borrower or any of its Material Subsidiaries by any Agency in or of Ukraine.

(b) The Borrower or any of its Material Subsidiaries: (i) fails or is unable to pay its debts generally as they become due; or (ii) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding or to the appointment of a custodian of it or for any substantial part of its property; or (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding or for the appointment of a custodian in respect of the Borrower or any of its Material Subsidiaries or any part of their property and such order or decree remains unstayed and in effect for 60 days.

(c) The shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower.

14.7 Judgments

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies (from which no further appeal or judicial review is permissible under applicable law) for the payment of money against the Borrower and/or any Subsidiaries of the Borrower exceeds U.S.$10,000,000 (or the equivalent in any other currency) and there is a period of 60 days following the entry thereof (or, if later, the date therein specified for payment) during which all such judgments, decrees or orders are not discharged, waived or the execution thereof stayed and such default continues for five days.

14.8 Business

The Borrower ceases to carry on the principal business it carried on at the date hereof.

14.9 Analogous Events

Any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in Clauses 14.4 (*Validity and Illegality*) to 14.7 (*Judgments*).

14.10 Acceleration

If an Event of Default has occurred and is continuing, the Lender and/or the Trustee, upon obtaining the rights of the Lender under this Agreement following a Relevant Event, may by written notice to the Borrower declare the outstanding principal amount of the Loan to be immediately due and payable (whereupon the same shall become immediately due and payable together with accrued and unpaid interest thereon and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Loan to be due and payable on demand of the Lender (or the Trustee, upon obtaining the rights of the Lender under this Agreement following a Relevant Event).

14.11 Amounts Due on Demand

If, pursuant to Clause 14.10 (*Acceleration*), the Lender or the Trustee declares the outstanding principal amount of the Loan to be due and payable on demand of the Lender (or the Trustee, upon obtaining the rights of the Lender under this Agreement following a Relevant Event) then, and at any time thereafter, the Lender or the Trustee (as the case may be) may by written notice to the Borrower require repayment of the outstanding principal amount of the Loan on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued and unpaid interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

15. Indemnity

15.1 The Borrower's Indemnity

(a) The Borrower undertakes to the Lender, that if the Lender or the Trustee (each an "**indemnified party**") reasonably incurs any loss, liability, cost, claim, charge or expense, together with in each case any VAT thereon) (a "**Loss**") as a result of or in connection with any Event of Default or Potential Event of Default, the Borrower shall pay to the Lender or the Trustee, as the case may be, subject to the presentation of properly documented evidence thereof, an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred.

(b) The indemnity in paragraph (a) above shall not apply to a Loss:

(i) which is caused by an indemnified party's gross negligence or wilful default or misconduct;

(ii) which is recovered under Clause 8.1 (*Additional Amounts*); or

(iii) where an indemnity is sought already under Clauses 8.3 (*Indemnity Amounts*), 10 (*Changes in Circumstances*) or 18 (*Costs and Expenses*).

15.2 Independent Obligation

Clause 15.1 (*The Borrower's Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Funding Instruments and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

15.3 Survival

The obligations of the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.2 (*Tax Relief*), 8.3 (*Indemnity Amounts*), 10 (*Changes in Circumstances*), 17 (*Payments*), 15.1 (*The Borrower's Indemnity*) and 17.5 (*No Set-off*) shall survive the execution and delivery of this Agreement, the borrowing and the repayment of the Loan, in each case by the Borrower.

16. Currency of Account and Payment

16.1 Currency of Account

Subject as provided herein, U.S. Dollars is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

16.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Borrower; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender (and the Trustee) from and against any loss suffered or reasonably incurred as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which the Lender (and the Trustee) may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

17. Payments

17.1 U.S. Dollar Equivalents

The payment in full to the Lender of the U.S. Dollar Equivalent of amounts of interest, principal and any other amounts payable hereunder shall satisfy the Borrower's obligation to pay such amounts hereunder.

17.2 Hryvnia Payments

(a) Notwithstanding the obligations of the Borrower to make payment of amounts payable under the Loan in U.S. Dollars, if the Exchange Rate cannot be determined in accordance with limbs (i) or (ii) of the definition of Exchange Rate, it is permitted pursuant to Ukrainian law for the Borrower to make payments in hryvnia to the Lender and the Lender is able to accept a payment in hryvnia, then the Borrower may make payment of amounts payable in respect of the Loan in hryvnia.

(b) Following a change in Ukrainian law, such that the Borrower is permitted to make payments of amounts payable under the Loan in hryvnia, the Borrower shall notify the Lender and the Trustee of such change in law and request the Lender take reasonable steps to open a hryvnia denominated account (which may be an account in the name of the Lender with the Borrower) at the expense of the Borrower.

(c) The Lender shall be under no obligation to convert hryvnia amounts received by it into U.S. Dollars.

17.3 Payments to the Lender

(a) On each date on which this Agreement requires an amount denominated in U.S. Dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. Dollars and in Same-Day Funds (or in such other funds as may for the time being be customary for the settlement of international banking transactions in U.S. Dollars) not later than 11.00 a.m. (New York City time) on the Business Day falling two Business Days prior to the Interest Payment Date to the Account other than amounts payable: (i) in respect of Reserved Rights (as such term is defined in the Trust Deed); (ii) under the Fees Letter; or (iii) in relation to Clause 15.1 (*The Borrower's Indemnity*) which the Borrower shall pay to such account or accounts as the Lender and/or the Trustee shall notify to the Borrower; *provided that* if at any time the Trustee notifies the Borrower that it has obtained the rights of the Lender under this Agreement following a Relevant Event has occurred, the Borrower shall make all subsequent payments, which would otherwise be made to the Account, to such other account as shall be notified by the Trustee to the Borrower. Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that, before 10.00 a.m. (New York City time) on the Business Day before the due date of each payment made by it under this Clause 17.3 (*Payments to the Lender*), the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment.

(b) The Lender (or the Trustee, upon obtaining the rights of the Lender under this Agreement following a Relevant Event) shall use its reasonable endeavours to provide the Borrower with information and documents as may be required by the applicable Ukrainian legislation for the purposes of making payments by the Borrower to any account other than the Account.

17.4 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments under this Agreement in the manner specified in Clause 17.3 (*Payments to the Lender*), then the Borrower may agree with the Lender (and the Trustee) alternative arrangements for the payment to the Lender (or, as the case may be, the Trustee, upon obtaining the rights of the Lender under this Agreement following a Relevant Event) of amounts due (prior to the delivery of any notice referred to in Clause 17.3 (*Payments to the Lender*)) under this Agreement provided that, in the absence of any such agreement with the Lender (or the Trustee upon obtaining the rights of Lender under this Agreement following a Relevant Event), the Borrower shall be obliged to make all payments due to the Lender in the manner specified in Clause 17.3 (*Payments to the Lender*).

17.5 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

18. Costs and Expenses

18.1 Transaction Expenses and Fees

The Borrower agrees that it shall pay the fees and expenses of the Lender as specified in the Fees Letter.

18.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on written demand of the Lender (or the Trustee) reimburse the Lender (or, as the case may be, the Trustee) for all properly documented and reasonably incurred costs and expenses (including legal fees and expenses) together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

18.3 Taxes

The Borrower shall pay all stamp, registration and other similar duties or Taxes (including any interest or penalties thereon or in connection therewith) to which the Funding Documents or any judgment given against the Borrower in connection therewith is or at any time may be subject, and shall, from time to time on written demand of the Lender (or the Trustee), indemnify the Lender (or, as the case may be, the Trustee) against any properly documented liabilities, losses, costs, expenses (including, without limitation, legal fees and any applicable value added tax) and claims, actions or demand resulting from any failure to pay or any delay in paying any such duty or tax.

18.4 Costs Relating to Amendments and Waivers

The Borrower shall, from time to time on written demand of the Lender (and/or the Trustee) (and without prejudice to the provisions of Clause 15.1 (*The Borrower's Indemnity*) and Clause 18.2 (*Preservation and Enforcement of Rights*)) pay to the Lender (and/or, as the case may be, the Trustee) at such daily and/or hourly rates as the Lender (and/or, as the case may be, the Trustee) shall from time to time reasonably determine for all time expended by the Lender (or, as the case may be, the Trustee), their respective directors, officers and employees, and for all properly documented costs and expenses (including telephone, fax, copying and travel costs) they may reasonably incur, in connection with the Lender (and, as the case may be, the Trustee) taking such action as it may consider appropriate in connection with:

(a) any meeting of holders of the Funding Instruments or the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

(b) any actual or potential breach by the Borrower of any of its obligations under this Agreement;

(c) the occurrence of any event which is an Event of Default or a Potential Event of Default; or

(d) any amendment or proposed amendment to this Agreement or any Funding Document.

In that regard, the Lender shall, promptly upon request by the Borrower, convene a meeting of holders of Funding Instruments in accordance with the terms and conditions of the Funding Instruments and the provisions of the Funding Documents.

19. Assignments and Transfers

19.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

19.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

19.3 Assignments by the Lender

Subject to the Funding Documents, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except for the charge by way of first fixed charge granted by the Lender in favour of the Trustee of the Lender's rights and benefits under this Agreement and the absolute assignment by way of security by the Lender to the Trustee of certain rights, interest and benefits under this Agreement and to the Account, in each case pursuant to the Funding Documents.

20. Calculations and Evidence of Debt

20.1 Evidence of Debt

The Lender shall maintain accounts evidencing the amounts from time to time lent by and owing to it hereunder and in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

20.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Indemnity Amounts*) or Clause 10.1 (*Increased Costs*) or Clause 15.1 (*The Borrower's Indemnity*) shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower.

21. Remedies and Waivers, Partial Invalidity

21.1 Remedies and Waivers

No failure by the Lender or the Trustee to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

21.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

22. Notices; Language

22.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax, email or post.

22.2 Giving of Notice

(a) Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days' written notice specified another address) be made or delivered to that other person, addressed as follows:

(i) If to the Borrower:

Joint-Stock Company "The State Export-Import Bank of Ukraine"
127 Antonovycha Street
Kyiv 03150
Ukraine

Fax: +38 044 247 8928/8082
Attention: International Borrowings Division If to the Lender:

Biz Finance Plc
6th Floor, 65 Gresham Street,
London EC2V 7NQ
United Kingdom

Fax: +44 203 1700 246
Attention: The Directors

(ii) If to the Trustee:

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

Fax: +44 20 7964 2536
Attention: Trustee Administration – BIZ Finance LPN

(b) Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall, unless that other party has by 15 calendar days' written notice to the same specified another address or fax number, be made or delivered to that other party at the address or fax number specified in this Clause 22.2 and shall be effective upon receipt by the addressee on a business day in the city of the recipient; provided that: (i) any such communication or document which would otherwise take effect after 4.00 p.m. on any particular business day in the city of the addressee shall not take effect until 10.00 a.m. on the immediately succeeding business day in the city of the addressee; and (ii) any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

22.3 English Language

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

22.4 Language of Agreement

This Agreement has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Agreement, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Agreement, the English version of this Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

23. Law and Jurisdiction

23.1 English Law

This Agreement, including any non-contractual obligations arising out of or in connection with this Agreement and the arbitration agreement set out in this Clause 23 (*Law and Jurisdiction*), is governed by, and shall be construed in accordance with, English law.

23.2 Arbitration

The parties to this Agreement agree that any claim, dispute or difference of whatever nature arising under, out of or in connection with this Agreement (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with this Agreement or the consequences of its nullity) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") as at present in force and as modified by this Clause 23.2, which Rules shall be deemed incorporated into this Clause 23.2. The number of arbitrators shall be three, one of whom shall be nominated by the claimant(s), one by the respondent(s) and the third of whom, who shall act as chairman, shall be nominated by the two party-nominated arbitrators. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

23.3 Service of Process

The Borrower agrees that the service of process relating to any Dispute in England or Wales may be by delivery to Oleg Rzhondkovskyi, Head of London Representative Office of Joint Stock Company "The State Export-Import Bank of Ukraine", Juxon House, 100 St. Paul's Churchyard, London EC4M8BU, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in England or Wales to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 23.3 shall affect the right of the Lender to serve process in any other manner permitted by law.

23.4 Waiver of Immunity

The Borrower agrees that any award made pursuant to Clause 23.2 (*Arbitration*) in relation to a Dispute may be enforced in a tribunal or court (as the case may be) to the jurisdiction of which the Borrower is or may be subject. To the extent that the Borrower may in any jurisdiction claim for itself, its assets or revenue, immunity from suit, execution, attachment (whether in aid of execution, before making a judgment, aware or otherwise) or other legal proceedings, including in relation to an enforcement of an arbitral award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower, its assets or revenue, the Borrower agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the law of such jurisdiction.

24. Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has not rights under the Contracts (rights of Third Parties) Act 1999 to enforce any term of this Agreement, other than the Trustee in relation to Clause 13 (*Covenants*), Clause 14 (*Events of Default*), Clause 15 (*Indemnity*), Clause 16.2 (*Currency Indemnity*), Clause 17 (*Payments*), Clause 18.2 (*Preservation and Enforcement of Rights*), Clause 18.3 (*Taxes*), Clause 18.4 (*Costs Relating to Amendments and Waivers*) and Clause 23 (*Law and Jurisdiction*), but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

25. Effectiveness of the Agreement

This Agreement shall enter into effect on the Effective Date, except that Clause 17.2 (*Hryvnia Payments*) shall enter into effect upon the revocation of the requirement under paragraph 1 of the UAH Loans Resolution that payments under loan agreements to which the UAH Loans Resolution applies should be made only in foreign currency.

As Witness the hands of the duly authorised representatives of the parties hereto the day and year first before written.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions, which will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes in Global form" below.

The UAH 4,051,000,000.00 16.5 per cent. Loan Participation Notes due 2021 (the "**Notes**", which expression includes any Further Notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of Biz Finance Plc (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 2 March 2018 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 2 March 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, The Bank of New York Mellon SA/NV, Luxembourg Branch as Registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes, and together with any other or successor paying agents appointed from time to time in connection with the Notes, the "**Paying Agents**"), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed, the Agency Agreement and the Loan Agreement (as defined below) and subject to their detailed provisions. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof at One Canada Square, London E14 5AL, United Kingdom and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a UAH 4,051,000,000.00 loan (the "**Loan**") to Joint Stock Company "The State Export-Import Bank of Ukraine" (the "**Borrower**"). The terms and conditions of the Loan are recorded in the loan agreement dated 28 February 2018 between the Borrower and the Issuer (as lender) (as amended or supplemented from time to time, the "**Loan Agreement**"). Save in the limited circumstances provided for in the Loan Agreement, all payments of principal and interest, and any other payments under the Loan and the Loan Agreement will be paid by the Borrower into the Account (as defined below) in United States Dollars ("**USD**") or ("**U.S. Dollars**").

The Notes, which are denominated in hryvnia, are subscribed for in U.S. Dollars. On or about the Closing Date, the Bank shall calculate the hryvnia equivalent of the gross subscription amount of the Notes on the basis of the Pricing Date Exchange Rate (as defined below). Such hryvnia amount shall be the principal amount of the Loan.

Subject to Condition 7 (*Settlement*), all payments of principal and interest, and any other payments under the Notes will be settled and paid to Noteholders in U.S. Dollars, which amounts shall be equal to the relevant hryvnia amount payable in respect of the Notes and received by the Issuer under the Loan Agreement, converted into U.S. Dollars at the relevant Exchange Rate. Noteholders may be exposed to fluctuations in the value of the hryvnia and the U.S. Dollar and the conversion and settlement risks (including costs and taxes, if any) associated therewith and neither the Issuer, the Borrower, the Trustee nor any Paying Agent shall have any responsibility, obligation or liability whatsoever towards Noteholders in relation to such risks or any loss suffered by Noteholders as a result thereof. The Borrower shall, in accordance with the terms of the Loan Agreement, give notice to the Issuer of the relevant Exchange Rate(s) and the relevant amounts payable.

In each case where amounts of principal, interest and Additional Amounts, if any, due pursuant to Condition 6 (*Payments*) and Condition 8 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the

Noteholders (as defined in Condition 2(a) (*Register*)), on each date upon which such amounts of principal, interest and Additional Amounts, if any, are due in respect of the Notes, to the extent of the sum of principal, interest, Additional Amounts and Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below).

Noteholders must therefore rely solely and exclusively upon the Borrower's covenant to pay and to perform its obligations under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

As security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes, the Issuer as lender under the Loan Agreement has:

(A) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to (i) principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer as lender under the Loan Agreement; (ii) all amounts now or hereafter paid or payable by the Borrower to the Issuer under or in respect of any claim, award or judgment relating to the Loan Agreement (in each case, other than its right to amounts in respect of any rights, interests and benefits of the Issuer under the following Clauses of the Loan Agreement: Clause 3.2 (*Fees*), the second sentence of Clause 7.4 (*Costs of Prepayment*); Clause 8.3 (*Indemnity Amounts*); Clause 10 (*Changes in Circumstances*); Clause 11 (*Representations and Warranties of the Borrower*), Clause 15 (*Indemnity*); Clause 18 (*Costs and Expenses*) (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Loan Agreement); Clause 8.2 *Tax Treaty*); Clause 16.2 (*Currency Indemnity*) and Clause 17.5 (*No Set-off*) (such rights are referred to herein as the "**Reserved Rights**"));

(B) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to all sums held on deposit from time to time, in the Account (as defined below) with the Principal Paying Agent, together with the debt represented thereby (except to the extent such debt relates to Reserved Rights) pursuant to the Trust Deed (the property charged pursuant to this sub-paragraph (B), together with the property charged pursuant to sub-paragraph (A) other than the Reserved Rights, the "**Charged Property**"); and

(C) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower under the Loan Agreement), other than the Charged Property and the Reserved Rights and amounts payable by the Borrower in relation to the Charged Property and the Reserved Rights (the "**Transferred Rights**", and together with the Charged Property and the Reserved Rights, the "**Security Interests**").

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least 25 per cent. of the principal amount of the Notes then outstanding or by an Extraordinary Resolution (as defined herein) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests). However, it may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take such actions, notwithstanding the provision of an indemnity or security to it, and it will thus be for the Noteholders to take such actions directly.

For the purposes of these Conditions, unless otherwise defined herein or the context requires otherwise:

"**Account**" means the U.S. Dollar account with the account number 2056198400 in the name of the Issuer with The Bank of New York Mellon;

"**Additional Amounts**" has the same meaning ascribed to it in Clause 8.1 (*Additional Amounts*) of the Loan Agreement;

"**Borrowing Date**" means the date on which the Loan (of UAH 4,051,000,000.00) is first made to the Borrower in accordance with the Loan Agreement;

"**Business Day**" means any day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments (including dealings in foreign currencies) in Kyiv, New York and London;

"**Event of Default**" means any circumstances described as such in Clause 14 (*Events of Default*) of the Loan Agreement;

"**Exchange Rate**" has the meaning ascribed to it in Condition 7 (*Settlement*);

"**Indemnity Amounts**" has the meaning ascribed to it in Clause 8.3 (*Indemnity Amounts*) of the Loan Agreement;

"**Issue Date**" means 2 March 2018;

"**NBU**" means the National Bank of Ukraine; and

"**Pricing Date Exchange Rate**" means UAH/USD 27.006610/1.000.

1. Form, Denomination and Status

(a) *Form and denomination:* The Notes are in registered form, without interest coupons attached, in the denominations of UAH 6,000,000 and integral multiples of UAH 50,000 in excess thereof (each, an "**Authorised Holding**").

(b) *Status:* The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the principal amount of the Notes solely for financing the Loan and to account to the Noteholders for principal and interest and Additional Amounts defined above, if any, in respect of the Notes in an amount equivalent to sums of principal, interest, Additional Amounts and Indemnity Amounts (as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to receive which is, *inter alia*, being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Subject to Condition 7 (*Settlement*), all payments of principal and interest, and any other payments under the Notes, will be settled and paid to Noteholders in U.S. Dollars, which amounts shall be equal to the relevant hryvnia amount payable in respect of the Notes (converted into U.S. Dollars at the relevant Exchange Rate) and received by the Issuer under the Loan Agreement in U.S. Dollars. Noteholders may be exposed to fluctuations in the value of the hryvnia and the U.S. Dollar and none of the Issuer, the Borrower, the Trustee nor any Paying Agent shall have any responsibility, obligation or liability whatsoever towards Noteholders in relation to such risks or any loss suffered by Noteholders as a result thereof.

Payments in respect of the Notes to the extent of the sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Indemnity Amounts, if any, pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (subject to Condition 8 (*Taxation*)), on the dates on which such payments are due in respect of the Notes subject to the conditions attaching to such payments under the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability, or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon the performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer that the Loan Agreement constitutes the legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representation and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Transferred Rights;

(vi) the Issuer (and, pursuant to the assignment of the Transferred Rights, the Trustee) will rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property represented by the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security;

(vii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes (including from funds held in the Account), the sole obligation of the Issuer will be to pay the Noteholders sums equivalent to the sums actually received from the Borrower pursuant to the Loan Agreement in respect of such payment, including, if applicable, Additional Amounts or Indemnity Amounts in respect of the tax required to be so withheld or deducted; the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in Clause 8 (*Taxes*) and Clause 10.3 (*Mitigation*) of the Loan Agreement;

(viii) subject to Condition 7 (*Settlement*), all payments of principal and interest, and any other payments under the Notes, will be settled and paid to Noteholders in U.S. Dollars, which amounts shall be equal to the relevant hryvnia amount converted into U.S Dollars at the relevant Exchange Rate payable in respect of the Loan and received by the Issuer under the Loan Agreement. Noteholders may be exposed to fluctuations in the value of the hryvnia and the U.S. Dollar and neither the Issuer, the Borrower, the Trustee nor any Paying Agent shall have any responsibility, obligation or liability whatsoever towards Noteholders in relation to such risks or any loss suffered by Noteholders as a result thereof.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. No Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Security Interests. The Trustee shall not be required to take proceedings to enforce payment under the Trust Deed or, pursuant to the Transferred Rights or the Loan Agreement unless it has been indemnified and/or secured and/or pre-funded by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the Borrower's covenant to pay and to perform its obligations under the Loan Agreement and the credit and financial standing of the Borrower.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Payments made by the Borrower under the Loan Agreement to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

2. Register, Title and Transfers

(a) *Register*: The Registrar will maintain outside the United Kingdom a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Definitive Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

*The "Global Note" will be deposited with The Bank of New York Mellon, London Branch, as common depositary (or any successor common depositary appointed from time to time) for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and registered in the name of the Bank of New York Depositary (Nominees) Limited (or any other nominee as may be appointed from time to time), as nominee for the Common Depositary (the "**Global Note**").*

(b) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers:* Subject to Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or relevant Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided*, *however*, *that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Definitive Note Certificates:* Within five business days of the surrender of a Definitive Note Certificate in accordance with Condition 2(c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Definitive Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its address (as specified by such Holder to the Registrar) or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Borrower. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are listed on the Global Exchange Market of the Irish Stock Exchange, a copy of the current regulations will be publicly available at the specified offices of the Transfer Agent and the Principal Paying Agent.

3. Issuer's Covenants

(a) As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or a Written Resolution (as defined herein), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*).

(b) The Issuer shall take all reasonable steps required to be, or refrain from taking any action that would prevent it from being, classified as a securitisation company within the framework of the Securitisation Company Regulations 2006 (as amended from time to time) of the United Kingdom.

4. Interest

(a) *Interest Rate*. Interest on the Notes is equal to 16.5 per cent. per annum (the "**Rate of Interest**") (the "**Due Interest**"), *provided that*, subject to and in accordance with Condition 6 (*Payments*), on each Interest Payment Date the Issuer shall pay to the Noteholders (subject to Condition 7 (*Settlement*)) only an amount of interest in U.S. Dollars equal to the amount of interest in hryvnia and converted into U.S. Dollars at the relevant Exchange Rate actually received by or for the account of the Issuer pursuant to the Loan Agreement (the "**Current Paid Interest**"). The amount equal to the difference between the Due Interest and the Current Paid Interest (if any) shall remain due by the Issuer, but shall be deferred (the "**Deferred Interest**"). Interest shall accrue on the Loan from day to day from (and including) 2 March 2018 to (but excluding) the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the outstanding principal amount of the Loan is made.

Subject to Condition 7 (*Settlement*), all payments of interest will be settled and paid to Noteholders in U.S. Dollars, which amounts shall be received by the Issuer under the Loan Agreement in U.S. Dollars and equal to the relevant hryvnia amount payable in respect of the Loan (converted into U.S. Dollars at the relevant Exchange Rate).

(b) *Calculation of Interest*. The amount of interest payable in hryvnia in respect of the Loan for any Interest Period shall be calculated in accordance with the Loan Agreement by applying the applicable Rate of Interest to the principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest kopeck (half a kopeck being rounded upwards). If interest on the Loan is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

(c) *Interest Payment Dates*. As used in this Condition 4 (*Interest*), "**Interest Payment Date**" and "**Interest Period**" shall have the meanings given to them in the Loan Agreement and "**Issue Date**" shall have the meaning given to the term "Borrowing Date" in the Loan Agreement. In the Loan Agreement, "**Interest Payment Date**" is defined as 2 March and 2 September in each year, on which the Loan remains outstanding (commencing, for the purposes of the Notes, on 2 September 2018). The final interest payment shall be payable on 2 March 2021. Under the Loan Agreement, the Borrower is required, two Business Days prior to each Interest Payment Date, to pay to the Issuer an amount equal to and in the same currency as the full amount of interest accruing during the Interest Period ending on such Interest Payment Date.

5. Redemption and Purchase

(a) *Scheduled Redemption*: Unless previously repaid pursuant to Clause 6 (*Repayment*) of the Loan Agreement, the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement and, unless previously redeemed pursuant to this Condition 5 or Condition 13 (*Enforcement*) all the Notes will be redeemed at their outstanding principal amount on 2 March 2021, subject as provided in Condition 6 (*Payments*) and Condition 7 (*Settlement*).

(b) *Redemption by the Issuer:* The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 30 days' nor more than 90 days' notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the notice of repayment referred to in Condition 5(b)(i) or (ii) below) in accordance with Condition 15 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any Additional Amounts in respect thereof pursuant to Condition 8 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has received a notice of repayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Loan Agreement, which includes, *inter alia*, the Borrower's right to give notice that it has decided to repay the Loan in the event that the Issuer is, subject to receipt of corresponding amounts from the Borrower, required to pay Additional Amounts in respect of any Relevant Taxing Jurisdiction (as defined below) as provided in Condition 8 (*Taxation*); or

(ii) the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement.

The Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(b) *(Redemption by the Issuer)*. A copy of the Borrower's notice of repayment or details of the circumstances contemplated by Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement and the date fixed for redemption shall be set forth in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 5(b) *(Redemption by the Issuer)* as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5(b) *(Redemption by the Issuer)*, the Issuer shall redeem the Notes in accordance with this Condition 5 *(Redemption and Purchase)*, subject as provided in Condition 6 (*Payments*) and Condition 7 (*Settlement*).

(c) *Redemption at the option of the Noteholders upon a Change of Control:*

(i) Upon the occurrence of a Change of Control (as defined in the Loan Agreement), the Issuer will make an offer to purchase all or any part of the Notes pursuant to the offer described below (the "**Change of Control Offer**") at a price per Note in cash (the "**Change of Control Payment**") equal to the principal amount thereof plus accrued and unpaid interest thereon to the date of repurchase, plus Additional Amounts, if any, to the date of repurchase. Pursuant to Clause 7.3 (*Prepayment in the event of a Change of Control*) of the Loan Agreement, the Issuer is required to give notice to the Borrower and the Trustee at least five Business Days prior to the Change of Control Payment Date required to be made by the Issuer for such Notes on the Change of Control Payment Date (the "**Change of Control Notice**") and thereafter the Borrower will repay the Loan to the extent corresponding to the aggregate principal amount plus accrued and unpaid interest and Additional Amounts, if any, on the Notes to be repurchased in accordance with this Condition 5(c) and will pay accrued and unpaid interest and Additional Amounts, if any, on the Notes to be repurchased.

(ii) The Issuer, upon distribution of the Change of Control Notice, shall also give notice thereof to the Noteholders in accordance with Condition 15 (*Notices*) with a copy to the Agents and the Trustee, with the following information: (A) that a Change of Control Offer is being made pursuant to this Condition 5(c) and all Notes properly tendered pursuant to such Change of Control Offer will be accepted for payment;

(B) the purchase price and the purchase date, which will be a Business Day (as defined in the Loan Agreement) falling not less than 30 calendar days nor more than 60 calendar days after the date of delivery by the Issuer of the Change of Control Notice (the "**Change of Control Payment Date**"), provided that the Issuer shall, where reasonably practicable, specify a Change of Control Payment Date which falls before the date on which Ukraine, whether through the Cabinet of Ministers of Ukraine or any other Agency of Ukraine (as defined in the Loan Agreement), ceases to own, legally and beneficially, at least 51 per cent. of the Capital Stock (as defined in the Loan Agreement) of, or otherwise to control the Borrower; (C) that any Note not properly tendered or not tendered at all will remain outstanding and continue to accrue interest and Additional Amounts, if any; (D) that unless the Issuer defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer will cease to accrue interest and Additional Amounts, if any, on the Change of Control Payment Date; (E) that Noteholders electing to have any Notes repurchased pursuant to a Change of Control Offer will be required to surrender the Notes, with the form entitled "**Option to Purchase Notice**" set out in a schedule to the Agency Agreement completed, to the Paying Agent and at the address specified in the notice prior to the close of business on the fourth Business Day preceding the Change of Control Payment Date; and (F) that Noteholders will be entitled to withdraw their tendered Notes and their election to require the Issuer to repurchase such Notes provided that the Paying Agent receives prior to the close of business on the third Business Day preceding the Change of Control Payment Date, a facsimile transmission or letter setting out the name of the Noteholder, the principal amount of Notes tendered for repurchase, and a statement that such Noteholder is withdrawing his tendered Notes and his election to have such Notes repurchased.

(iii) No later than the second Business Day (as defined in the Loan Agreement) prior to the Change of Control Payment Date, the Borrower will, pursuant to Clause 7.4 (*Costs of Prepayment*) of the Loan Agreement, repay the Loan (together with all accrued interest and any other amounts outstanding thereunder) in an amount corresponding to the aggregate principal amount in respect of all Notes properly tendered and not properly withdrawn as set out in the Change of Control Notice plus accrued and unpaid interest and Additional Amounts (if any) thereon. On the Change of Control Payment Date, the Issuer will, to the extent permitted by law and subject to such repayment, (i) accept for payment all Notes properly tendered and not properly withdrawn pursuant to the Change of Control Offer and (ii) deliver, or cause to be delivered, to the Principal Paying Agent for cancellation on behalf of the Issuer the Notes so accepted together with a certificate of two authorised officers of the Issuer stating that such Notes have been tendered to and purchased by the Issuer. In accordance with the instructions of the Noteholder set out in the Option to Purchase Notice, the Paying Agent will promptly pay to the Noteholder the Change of Control Payment for such Notes. The Issuer will publicly announce, and will provide notice to Noteholders in accordance with Condition 15 (*Notices*), the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

(d) *No other redemption*: Except where the Loan is accelerated pursuant to Clause 14 (*Events of Default*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to their due date otherwise than as provided in this Condition 5 (*Redemption and Purchase*) and Condition 13 (*Enforcement*) and subject to the terms set out in Clause 7.6 (*No Other Prepayments*) and Clause 7.7 (*No Reborrowing*) of the Loan Agreement.

(e) *Purchase*: The Issuer, the Borrower or any of their respective subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Such Notes may be held or resold (*provided that* any such resale is outside the United States as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) or surrendered by the purchaser through the Issuer to the Registrar for cancellation.

(f) *Cancellation*: All Notes so redeemed or purchased and surrendered for cancellation by the Issuer shall be cancelled and all Notes purchased by the Borrower and surrendered to the Issuer pursuant to Clause 7.5 (*Purchase of Funding Instruments and Reduction of the Loan upon cancellation of Funding Instruments*) of the Loan Agreement, together with an authorisation addressed to the Registrar by the Borrower, shall be cancelled.

6. Payments

(a) *Principal*: Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City or London, as the case may be, and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by U.S. Dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City, London or Dublin, as the case may be, and (in the case of interest payable on redemption), and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days:* Where payment is to be made by transfer to a U.S. Dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. Dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments (including dealings in foreign currencies) in the principal financial centre for such currency and, in the case of surrender (or, in the case of part payment only, endorsement) of a Definitive Note Certificate, in the place in which the Definitive Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Definitive Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Definitive Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(g) *Payment to the Account*: Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 6.1 (*Issuer to pay Principal Paying Agent*) of the Agency Agreement require the Borrower to make all payments of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, to be made pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, to the Account.

(h) *Payment obligations limited:* Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Condition 5 (*Redemption and Purchase*), this Condition 6 (*Payments*) and Condition 7 (*Settlement*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amount in respect of the Reserved Rights). The Issuer will have no other financial obligation under the Notes. All payments under the Notes will be settled in U.S. Dollars subject to Condition 7 (*Settlement*). Noteholders may be exposed to fluctuations in the value of the hryvnia and the U.S. Dollar and neither the Issuer, the Trustee nor any Paying Agent shall have any responsibility, obligation or liability whatsoever towards Noteholders in relation to such risks or any loss suffered by Noteholders as a result thereof.

7. Settlement

Pursuant to the terms of the Loan Agreement, payments of all amounts in respect of the Loan shall be settled in U.S. Dollars, which amounts shall be equal to the relevant hryvnia amount payable in respect of the Loan, converted into U.S. Dollars at the relevant Exchange Rate by the Borrower.

With respect to each such calculation, the Borrower shall in accordance with the terms of the Loan Agreement give notice to the Issuer and the Trustee (and the Issuer shall notify the Agents and the Noteholders) of the relevant Exchange Rate and the amount of U.S. Dollars payable, and in the absence of manifest error, such Exchange Rate shall be binding on the Borrower, the Issuer, the Trustee, the Agents and Noteholders.

Notwithstanding the obligations of the Bank to make payment of amounts payable under the Loan, in U.S. Dollars, if the Exchange Rate cannot be determined in accordance with limbs (i) or (ii) of the definition of Exchange Rate, then the Bank may make payment of amounts payable in respect of the Loan in hryvnia provided that (i) the Resolution of the Board of the National Bank of Ukraine "On Carrying Out Currency Transactions under Facilities, Loans Borrowed from Non-Residents on Special Terms" No. 12 dated 15 February 2018 (the "**UAH Loans Resolution**") is amended, replaced or re-enacted so that the requirement in the UAH Loans Resolution existing on the date hereof that payments under loan agreements to which the UAH Loans Resolution applies should be made only in foreign currency is revoked; (ii) the Bank is permitted under Ukrainian law to make such payments in hryvnia to the Issuer and the Issuer is able to accept a payment in hryvnia; and (iii) the Bank and the Issuer provide notification in writing to the Trustee, the Agents and the Noteholders that it will make such payments not later than 10 business days prior to the date of such payments. Upon request by the Borrower, the Issuer shall take reasonable steps to set up an account denominated in hryvnia (which may be an account in the name of the Issuer with the Borrower), to facilitate such payment. Promptly upon opening any such account denominated in hryvnia, the Issuer shall grant security over such account to the Trustee for and on behalf of the Noteholders. The Issuer shall be under no obligation to convert hryvnia amounts received by it into U.S. Dollars. To the extent that the Issuer receives amounts due and payable in hryvnia and does not convert such amounts into U.S. Dollars, it shall promptly notify the Trustee, the Agents and the Noteholders thereof and request each Noteholder to provide instructions to the Issuer regarding the payment to such Noteholder of its proportionate share of such amounts. Each Noteholder shall, at its own cost and subject to providing the Issuer with such information as it may reasonably require, including (but not limited to) proof of holding, be entitled to instruct the Issuer to pay to such Noteholder its proportionate share of such hryvnia amounts to an appropriate account stipulated by such Noteholder. Any such instructing Noteholder will be required to open and maintain appropriate multi-currency accounts to receive payment of any such funds. The costs of opening such accounts and taking any further steps as may be required in order to receive such payments in hryvnia shall be borne by the Noteholder. Neither the Issuer nor the Trustee or any Agent shall incur any liability to any Noteholder in respect of any action taken, omitted or permitted to be taken, in good faith in accordance with any instruction from a Noteholder in connection with any payment made to such Noteholder in hryvnia.

For the purposes of this Condition 7 (*Settlement*):

"**Exchange Rate**" means (i) the official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua) at or about 09.00 a.m. Kyiv time on the applicable Exchange Rate Determination Date, or (ii) if it is not possible to determine a rate pursuant to (i) above, the rate calculated pursuant to the Survey Method, or (iii) if it is not possible to determine a rate pursuant to (i) or (ii) above, the most recent official exchange rate of UAH to USD published by the NBU on its official web-page (being at the date hereof at www.bank.gov.ua);

"**Exchange Rate Determination Date**" shall have the meaning given to such term in the Loan Agreement; and

"**Survey Method**" shall have the meaning given to such term in the Loan Agreement.

8. Taxation

All payments by or on behalf of the Issuer in respect of the Notes shall be made in full without set off or counterclaim, free and clear of and without deduction or withholding for or on account of any present or future taxes, levies, duties, assessments, fees or other governmental charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto) no matter how they are levied or determined ("**Taxes**") imposed by any taxing authority of or in, or having authority to tax in the jurisdiction of organisation of the Issuer and (if different) any jurisdiction in which the Issuer is resident for tax purposes at the time of payment or any political subdivision or taxing authority thereof or therein (each, a "**Relevant Taxing Jurisdiction**"), unless such deduction or withholding of Taxes is required by law. In that event, the Issuer shall, subject as provided below, pay such Additional Amounts as will result in the receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. The foregoing obligation to pay Additional Amounts, however, will not apply to any:

(a) Taxes that would not have been imposed but for the existence of any present or former connection between such Noteholder and the Relevant Taxing Jurisdiction or Ukraine other than the mere receipt of such payment or the ownership or holding of such Note;

(b) Taxes that would not have been imposed but for the presentation of the Note or by the Noteholder for payment (of principal or interest) on a date more than 30 days after the Relevant Date (as defined below);

(c) Taxes required to be deducted or withheld by any Paying Agent from a payment on a Note, if such payment could have been made without deduction or withholding by any other Paying Agent in a Member State of the European Union; and

(d) Taxes required to be deducted or withheld by the Borrower pursuant to the terms of the Loan Agreement in respect of the amount of the USD Positive Difference (as defined in the Loan Agreement).

Notwithstanding the foregoing provisions, the Issuer shall only make payments of Additional Amounts to the Noteholders pursuant to this Condition 8 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower under the Loan Agreement, by way of Additional Amounts or Indemnity Amounts or otherwise.

To the extent that the Issuer receives a lesser sum from the Borrower under the Loan Agreement, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 8 (*Taxation*) for an additional amount equivalent to a *pro rata* portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement or on the date of and subject to any conditions attaching to such payment to the Issuer. Subject to Condition 7 (*Settlement*), all payments of principal and interest, and any other payments under the Notes, will be settled and paid to Noteholders in U.S. Dollars, which amounts shall be equal to the relevant hryvnia amount payable in respect of the Notes and received by the Issuer under the Loan Agreement converted into U.S. Dollars at the relevant Exchange Rate.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 *(Taxation)* or any undertaking given in addition to or in substitution of this Condition 8 pursuant to the Trust Deed or the Loan Agreement.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Definitive Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

10. Replacement of Definitive Note Certificates

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Replacement Agent (as defined in the Agency Agreement), subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

(a) *Appointment, Removal and Retirement of Trustee*: The power of appointing new trustees is vested in the Issuer pursuant to the Trust Deed but no person shall be appointed who shall not previously have been approved by an Extraordinary Resolution. A trust corporation may be appointed sole trustee hereof but subject thereto there shall be at least two trustees hereof one at least of which shall be a trust corporation. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless there remains a trustee hereof (being a trust corporation) in office after such removal.

Subject to the conditions set out in the Trust Deed, the Issuer may appoint a new trustee if the United Kingdom ceases to be the jurisdiction in which the Trustee is resident and acting through for taxation purposes.

Subject to the conditions set out in the Trust Deed, the Trustee may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer without assigning any reason therefor and without being responsible for any costs occasioned by such retirement, provided a replacement trustee has been appointed.

(b) *Indemnification of the Trustee*: Under separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders. The Trust Deed and the fees indemnity letter to be dated on or about 2 March 2018 contain provisions for the indemnification of the Trustee, provisions for its relief from responsibility, including relieving it from taking action unless indemnified to its satisfaction, and provisions entitling it to be paid its costs and expenses in priority to the claims of the Noteholders.

(c) *Trustee Contracting with the Issuer and the Borrower*: The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Borrower and/or any subsidiary of the Issuer and/or the Borrower and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Borrower and/or any subsidiary of the Issuer and/or the Borrower, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

(d) *Trustee to have regard to Interests of Noteholders as one Class*: In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between the Borrower and the Agents, the Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances.

(e) *Initial Paying Agents:* The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 15 (*Notices*).

12. Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons holding or representing whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (iv) to change the amount of principal and interest payable under the Loan Agreement, (v) to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed (other than as permitted under Clause 16.4 (*Substitution*) of the Trust Deed, (vi) to change the currency of payments under the Notes or the Loan Agreement, (vii) to change the currency of payments under the Notes, (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, (viii) to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement, (ix) to change any date fixed for payment of principal or interest or other amounts under the Loan Agreement or any date fixed for notification of the applicable Exchange Rate, (x) to alter the method of calculating the amount of any payment under the Loan Agreement or (xi) to change the currency of payment or, without prejudice to the rights under Condition 12(b) (*Modification*) below, change the definition of "Event of Default" under the Loan Agreement (each, a "**Reserved Matter**"), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

"**Extraordinary Resolution**" means a resolution passed at a Meeting duly convened and held in accordance with this Condition 12 *(Meetings of Noteholders; Modification and Waiver; Substitution)* by a majority of not less than three quarters of the votes cast.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of Notes then outstanding who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed (a "**Written Resolution**") will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification:* The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

(c) *Authorisation, Waiver and Determination:* In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, these Conditions or the Trust Deed by the Issuer or, pursuant to the Transferred Rights, the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement or constitute a Relevant Event (as defined in Condition 13 (*Enforcement*)) shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

(d) *Notification to Noteholders:* Unless the Trustee agrees otherwise, any such modification, authorisation or waiver shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 15 (*Notices*).

(e) *Substitution:* The Trust Deed contains provisions under which the Trustee may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes and its rights as Lender under the Loan Agreement to a third party *provided that* certain conditions specified in the Trust Deed are fulfilled.

13. Enforcement

At any time after an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least 25 per cent. in principal amount of the Notes then outstanding or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

The Trust Deed provides that, in the case of an Event of Default or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders of at least 25 per cent. in principal amount of the Notes then outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or pre-funded to its satisfaction, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (where an Event of Default has occurred and is continuing), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any Additional Amounts due in respect thereof pursuant to Condition 8 (*Taxation*) and thereupon shall cease to be outstanding.

For the purposes of these Conditions "**Relevant Event**" means the earlier of (i) the failure by the Issuer to make any payment of principal or interest on the Notes when due to the extent it is obligated to do so pursuant to these Conditions; (ii) the filing of an application for the institution for bankruptcy, insolvency or composition proceedings over the assets of the Issuer in the United Kingdom; and (iii) the taking of any action in furtherance of the dissolution of the Issuer. For the avoidance of doubt, no Additional Amounts shall be payable if and to the extent that such withholding or deduction is required following and on account of a Relevant Event.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, in accordance with the Trust Deed, create and issue Further Notes (as defined in the Trust Deed) having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and/or the first payment of interest) so as to form a single series with the Notes. Such Further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the Loan Agreement (or on the same terms except for the borrowing date and/or the first payment of interest and/or the rate of interest, subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders). The Issuer will provide a further fixed charge and absolute assignment by way of security in favour of the Trustee of its rights under such supplemental loan agreement, equivalent to the rights charged and assigned as Security Interests in relation to the Issuer's rights under the Loan Agreement which will, together with the Security Interests referred to in these Conditions, secure both the Notes and such Further Notes.

15. Notices

Notices to Noteholders shall be valid if published on the website of the Irish Stock Exchange or as otherwise required by any exchange on which the Notes are listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. In case by reason of any other cause it shall be impracticable to publish any notice to Noteholders as provided above, then such notification to such

Noteholders as shall be given with the prior written approval of the Trustee shall constitute sufficient notice to such Noteholders for every purposes hereunder.

16. Limited Recourse

If at any time following:

(a) the occurrence of the scheduled redemption date set out in Condition 5(a) (*Scheduled Redemption*) or any earlier date upon which all of the Notes are due and payable; and

(b) realisation of the Loan Agreement and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the Trust Deed and the Conditions,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable priority (or priorities) of payments, to pay in full any Deferred Interest and any other amounts then due and payable under the Notes then the amount remaining to be paid, including but not limited to Deferred Interest, (after such application in full of the amounts first referred to in (b) above) under the Notes shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer.

For the purposes of this Condition 16:

"**Realisation**" means, in relation to the Loan Agreement, the deriving, to the fullest extent practicable (in accordance with the provisions of the Trust Deed and other transaction documentation), of proceeds from or in respect of the Loan Agreement including (without limitation) through sale or through performance by the Borrower.

Notwithstanding any other Clause or provision in the Conditions or any transaction document, no provision other than this Condition 16 shall limit or in any way reduce the amount of interest that would otherwise be payable by the Issuer under any Note, if and to the extent that such limitation or reduction falls to any extent to be determined by reference to the results of any business or part of a business or the value of any property.

17. Governing Law and Jurisdiction

(a) *Governing law.* The Notes, the Trust Deed, the Loan Agreement and all matters arising from or connected with the Notes, the Trust Deed, the Loan Agreement, including any non-contractual obligations arising out of or in connection therefrom, are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* The Issuer has in the Trust Deed (i) irrevocably agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Definitive Note Certificate the names and Specified Offices of the Registrar, the Paying Agents and the Transfer Agents.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following information relates to the form and transfer of the Notes. Terms defined in the section of this Offering Circular entitled "Terms and Conditions of the Notes" have the same meanings in the paragraphs below where not otherwise defined below.

The Global Notes

The Notes will be evidenced on issue by a Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Global Note representing Notes may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures for the Global Note*". On acquisition of a beneficial interest in a Note, as represented by a Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person (as defined in Regulation S) and that, prior to the expiration of 40 day distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

Beneficial interests in the Global Note will be subject to certain restrictions on transfer set forth in the Global Note. A beneficial interest in the Global Note may be transferred to a person who takes delivery in the form of an interest in the Global Note, in denominations greater than or equal to the minimum denominations applicable, and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that each such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Except in the limited circumstances described below, owners of beneficial interests in the Global Note will not be entitled to receive physical delivery of definitive Note certificates (the "**Definitive Note Certificates**"). The Notes are not issuable in bearer form.

Amendments to the Conditions

The Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions, including the notice provisions thereof. So long as any Notes are evidenced by a Global Note and the relevant Global Note is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), (i) notices to Noteholders represented by the Global Note may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the terms and conditions of such Notes and (ii) the "**Record Date**" for any payment in respect of the Notes shall be as at the close of business on the record date which is the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

Exchange of Interests in Global Note for Definitive Note Certificates

Exchange

Any exchange of interests in Notes represented by a Global Note, in whole but not in part, for Definitive Note Certificates will not be permitted unless (i) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, (ii) following a failure to pay an amount in respect of any Notes within five days of the date on which such amount became due and payable in accordance with the Conditions or (iii) the Bank or the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations that it would not suffer were the Notes evidenced by Definitive Note Certificates.

The holder of the Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the Global Note, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Note Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for interests evidenced by Definitive Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

Delivery

After the circumstances set out above have occurred, the Global Note shall be exchanged for Definitive Note Certificates and the Issuer will, at the expense of the Bank (but against such indemnity as the Registrar or any relevant Transfer Agent or Paying Agent may require in respect of any tax or other duty of whatever nature that may be levied or imposed in connection with such exchange), cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant noteholders in accordance with the Conditions. A person having an interest in a Global Note must provide the Issuer and the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Note Certificates.

Book-Entry Procedures for the Global Note

Custodial and depository links are to be established between the clearing systems to facilitate the issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership — Settlement and Transfer of Notes.*"

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream Luxembourg each holds securities for its customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Book-Entry Ownership

Beneficial interests in the Global Note will be in uncertified book-entry form.

Euroclear and Clearstream, Luxembourg

The Global Note representing Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L 1855, Luxembourg.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of a clearing system as the holder of a Note evidenced by a Global Note must look solely to such clearing system for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of such clearing system. The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Note held within a clearing system are exchanged for interests evidenced by Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited.

Trading between Clearing Systems Participants

Secondary market sales of book-entry interests in the Notes held through a clearing system to purchasers of book-entry interests in the Notes held through such clearing system will be conducted in accordance with the normal rules of such clearing system.

Although the clearing systems have agreed to the procedures set forth in the Agency Agreement in order to facilitate transfers of a beneficial interest in a Global Note among participants and accountholders of such clearing systems, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by the clearing system or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre issue Trades Settlement

It is expected that delivery of Notes will be made against payment there for on the Closing Date, which could be more than three business days following the date of pricing. Settlement procedures will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

SUBSCRIPTION

The Joint Lead Managers have, in a subscription agreement dated 28 February 2018 (the "**Subscription Agreement**") and made between the Issuer, the Bank and the Joint Lead Managers upon the terms and subject to the conditions contained therein, agreed, severally and not jointly, to subscribe and pay for the Notes, at their issue price of 100.00 per cent. of their principal amount, in U.S. Dollars.

The Bank has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes and to reimburse the Joint Lead Managers, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Each of the Joint Lead Managers and their affiliates have performed certain investment and commercial banking or financial advisory services for the Issuer, the Bank and their respective affiliates from time to time, for which they have received customary fees and commissions, and they expect to provide these services to the Issuer, the Bank and those affiliates in the future, for which they expect to receive customary fees and commissions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve our, or our affiliates', securities and/or instruments. If the Joint Lead Managers or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

For a description of the selling restrictions see "*Selling Restrictions*" above.

TAXATION

The following is a general description of certain Ukrainian and United Kingdom tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes and the Loan, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

This summary is based upon the law as in effect as of the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Ukrainian Tax Considerations

General

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax advisers as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Offering Circular. Such laws and regulations are subject to change or varying interpretations. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or practice of its application may change or that the law may be amended. Accordingly, it is possible that payments to be made to the Issuer under the Loan Agreement and/or to the holders of the Notes could become subject to taxation in Ukraine or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as of the date of this Offering Circular.

Tax on Interest Payments under the Loan

Under Ukrainian tax legislation, interest income received by non-resident entities from Ukrainian sources is generally subject to withholding tax in Ukraine at 15 per cent. of the gross amount of such interest.

On 21 December 2016, the Parliament of Ukraine introduced new provisions relating to taxation of interest payments on the loans being a part of a loan participation notes structures. In particular, pursuant to Paragraph 47 of Sub-section 4 Section XX "*Transitionary Provisions*" of the Tax Code of Ukraine, a cross-border loan borrowed in the period between 1 January 2017 and 31 December 2018 has the benefit of an exemption from withholding tax (throughout the life of such loan) on payments of interest made by a resident of Ukraine to a non-resident of Ukraine, provided that: (i) the loan was financed through the issue by the lender of foreign debt securities at a foreign stock exchange included in the list of qualifying stock exchanges approved by the Cabinet of Ministers of Ukraine; (ii) the relevant proceeds were raised for the purpose of making the loan (directly or indirectly) to a resident of Ukraine; and (iii) a non-resident recipient of interest and/or its authorised person (provided interest is paid through such a person) is not resident in a jurisdiction other than a Qualifying Jurisdiction (namely a jurisdiction that, as at the Closing Date, is not included in the list of "low-tax" jurisdictions approved by the Resolution of the Cabinet of Ministers of Ukraine No. 1045 dated 27 December 2017) (the "**WHT Exemption Rule**").

Taking into account that (i) the Notes are debt securities admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange, which is included in the list of foreign stock exchanges approved by the Cabinet of Ministers of Ukraine; (ii) the balance of the U.S. Dollar proceeds of the Notes will be used by the Issuer for the purpose of financing the Loan; and (iii) as of the date of the issue of the Notes the Issuer is a tax resident of the United Kingdom which is a Qualifying Jurisdiction, the Bank believes that, based on the WHT Exemption Rule, payments of interest under the Loan will not be subject to withholding taxation in Ukraine.

Tax on Issue and Interest Payments under the Notes

No Ukrainian withholding tax should apply to the issue of the Notes or interest payments under the Notes because the Notes will not be issued and interest payments on the Notes will not be made by the Bank or from Ukraine.

Tax on Payment of Instalments of Principal of the Loan and on Redemption of the Notes

The amount received by the Issuer as repayment or prepayment of the principal amount of any loan is generally not treated as income. Therefore, other than as provided below, it shall not be subject to any income taxation in Ukraine either by withholding or otherwise. The amounts received by non-resident Noteholders on redemption of the Notes should not be subject to taxation in Ukraine as the payment on redemption of the Notes will not be made by the Bank or from Ukraine.

If the hryvnia appreciates against U.S. Dollar, the U.S. Dollar equivalent of the principal amount of the Loan (or any part thereof) required to be repaid or prepaid by the Bank to the Lender will be higher than the U.S. Dollar equivalent of the principal amount of the Loan (or the respective part thereof) received by the Bank on the Closing Date (such excess hereinafter the "**USD Positive Difference**"). The Bank believes that the amount of such USD Positive Difference may constitute Ukraine-sourced income for the purposes of Ukrainian taxation.

Under currently applicable Ukrainian tax laws, if the amount of the USD Positive Difference is considered to be Ukrainian-sourced income, then it may not have the benefit of the WHT Exemption Rule or the exemption under an applicable relevant double tax treaty. As a result, the Bank may be required to withhold Ukrainian tax on the amount of the USD Positive Difference at the time of repayment of the principal amount of the loan (currently, at the rate of 15 per cent.).

Pursuant to the Loan Agreement, the Bank will not be required to pay Additional Amounts (as defined in the Loan Agreement) in respect of withholding made on account of any such taxation of the USD Positive Difference.

Gross Up Provisions

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding tax in Ukraine (as a result of which the Issuer would reduce payments under the Notes), the Bank may, in certain circumstances specified in the Loan Agreement, become obliged to pay such Additional Amounts as may be necessary so that the net payments received by the Issuer or the Trustee will not be less than the amount the Issuer or the Trustee would have received in the absence of such withholding. Ukrainian tax laws prohibit contractual provisions under which residents undertake to pay non-residents, taxes on income received from sources in Ukraine. According to a clarification issued by Ukraine's tax authorities, payment of additional amounts to a non-resident entity in order to compensate for tax deducted in Ukraine contradicts the above requirement of the Ukrainian tax law. Although the position of the tax authorities expressed in the clarification is not legally binding, if interpreted broadly, the restriction would apply to the gross up provisions of the Loan Agreement and obligations of the Bank to pay additional amounts thereunder. As a result, the gross up provision could be found null and void and, therefore, unenforceable in Ukraine. In the event that the Bank becomes obliged to pay Additional Amounts as a result of a change in relevant law (including a change in the interpretation thereof), the Bank would become entitled to prepay the Loan at its principal amount, together with accrued interest, and in the event of such a prepayment (subject to receipt of the relevant funds from the Bank) all outstanding Notes would be prepaid by the Issuer.

If the Trustee were to enforce the security under the Trust Deed, following a Relevant Event, the Trustee will be entitled to payments of principal and interest under the Loan Agreement. It is unclear whether in such circumstances, payments under the Loan Agreement in favour of the Trustee will continue to have the benefit of the WHT Exemption Rule. Therefore, such payments may become subject to Ukrainian withholding tax. If this were to occur, the Bank would not be obliged to pay Additional Amounts on account of Ukrainian withholding tax withheld and the Trustee (on behalf of Noteholders) would only be entitled to receive payments net of such Ukrainian withholding tax. The Bank would also become entitled in such event to prepay the Loan at its principal amount, together with accrued interest as set forth in the Loan Agreement.

The Issuer is obliged to make payments under the Notes to Noteholders only to the extent of the amount of principal, interest and Additional Amounts or Indemnity Amounts (both as defined in the Conditions), if any, actually received by or for the account of the Issuer under the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Conditions).

Transfer of Notes to Ukrainian Investors

If Notes are held by a non-resident entity, any gains derived by the non-resident entity from the sale or other disposition of Notes in favour of a Ukrainian-resident entity will be subject to withholding tax in Ukraine at a rate of 15 per cent. If Notes are held by a non-resident individual, any gains derived by the individual from the sale or other disposition of Notes to a Ukrainian legal entity are generally subject to Ukrainian personal income tax at the rate of 18 per cent. and military duty at the rate of 1.5 per cent. The gains derived by the non-resident entity or individual from the sale or other disposition of Notes, otherwise subject to income taxation in Ukraine, may be exempt from taxation in Ukraine under provisions of applicable double tax treaties.

Tax Implications for Residents of Ukraine

A Noteholder who is an individual or legal entity resident in Ukraine for tax purposes (including a permanent establishment of a non-resident legal entity) is subject to taxation in Ukraine on net basis on its worldwide income (income attributable to permanent establishments in Ukraine). Interest from holding debt securities is included into the taxable income of a resident taxpayer, while the principal amount generally is not treated as income.

United Kingdom tax considerations

United Kingdom tax considerations

The following is a general summary of the Issuer's understanding of the United Kingdom taxation of payments in respect of, and of the issue and transfer of, the Notes. It is based on United Kingdom tax law and published practice of United Kingdom HM Revenue and Customs ("**HMRC**") as at the date of this document. Noteholders should be aware that law and practice may change at any time, possibly with retrospective effect. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain classes of persons, including dealers, or certain professional investors, insurance companies, collective investment schemes and persons holding their Notes through individual savings accounts, to whom special rules may apply. The comments are made on the assumption that there will be no substitution of the Issuer pursuant to the Trust Deed and do not consider the tax consequences of any such substitution.

The following is a general guide and should be treated with appropriate caution. It is not and does not purport to constitute tax or legal advice, or to be a comprehensive analysis of all potential United Kingdom tax consequences which may arise in connection with acquiring, holding or disposing of the Notes. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

This summary has been prepared on the basis that the Notes will be issued at 100 per cent. of their principal amount.

Interest

The Notes should constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007, provided they are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognised stock exchange for the purposes of this section. The Notes will satisfy this requirement if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the Global Exchange Market of the Irish Stock Exchange. Provided the Notes remain so listed payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any available exemptions and reliefs including an exemption for certain payments of interest to which a company within the charge to UK corporation tax is beneficially entitled. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty). Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax or corporation tax by direct assessment even where paid without withholding. However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). The provisions of any applicable double taxation treaty may also be relevant for such Noteholders.

The reference to "interest" in this "United Kingdom tax considerations" section means "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions of the Notes or any related documentation.

Transfer of the Notes

UK corporation taxpayers

In general Noteholders within the charge to UK corporation tax will be treated for UK corporation tax purposes as realising profits, gains or losses (including exchange gains and losses) in respect of the Notes (including on redemption) on a basis which is broadly in accordance with generally accepted accounting practice. Such profits, gains and losses will be taken into account in computing taxable income for UK corporation tax purposes.

Other UK taxpayers

The disposal (including a redemption) of a Note by a Noteholder who is resident for tax purposes in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Note is attributable and who is not subject to UK corporation tax in respect of the Note, may give rise to (i) a chargeable gain or an allowable loss for the purposes of UK tax on capital gains depending on individual circumstances and subject to any available exemptions or reliefs and (ii) a charge to income tax in respect of an amount representing interest on the Note which has accrued since the preceding Payment Date (this amount will be taken into account and excluded in determining any capital gain or loss arising on the disposal (including redemption) of the Note).

Stamp Duty and SDRT

No stamp duty or stamp duty reserve tax should be payable on issue of the Notes or on a transfer of the Notes.

UK tax treatment of the Issuer

The Issuer has been advised that it should fall within the permanent regime for the taxation of securitisation companies (as introduced by the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (the "**Securitisation Tax Regulations**")), and, as such, should be taxed only on the amount of its "retained profit" (as that term is defined in the Securitisation Tax Regulations), for so long as it satisfies the conditions of the Securitisation Tax Regulations. However, if the Issuer does not satisfy the conditions of the Securitisation Tax Regulations (or subsequently ceases to satisfy those conditions), then the Issuer may be subject to tax liabilities not contemplated in the cash flows for the transaction described in this Offering Circular. Any such tax liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest and/or principal than expected.

Provision of information

HMRC has powers to obtain information and documents relating to the Notes, including in relation to issues of and other transactions in the Notes, interest, payments treated as interest and other payments derived from the Notes. This may include details of the beneficial owners of the Notes, or, where the details of the beneficial owners are not known, of the persons for whom the Notes are held and of the persons to whom payments derived from the Notes are or may be paid. Information may be obtained from a range of persons including persons who effect or are party to such transactions on behalf of others, registrars and administrators of such transactions, the registered holders of the Notes, persons who make, receive or are entitled to receive payments derived from the Notes and persons by or through whom interest and payments treated as interest are paid or credited. Information obtained by HMRC may be provided to tax authorities in other jurisdictions.

Automatic exchange of information and the EU Savings Directive

As of 1 January 2016 in the case of all Member States of the European Union ("**EU Member States**") except Austria (and, from 1 January 2017 in the case of Austria) a new automatic exchange of information regime came into effect under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU).

The new regime provides for the automatic exchange of financial account information between EU Member States, including categories of information specified in Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**") as amended. The new exchange of information regime is generally broader in scope than the Savings Directive.

To preclude the overlap of the Savings Directive and the new exchange of information regime, the Savings Directive has been repealed from 1 January 2017 in the case of Austria, and 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates).

Any person who is in any doubt as to his or her tax position, or who requires more detailed information than the general outline provided above, or who is subject to tax in a jurisdiction other than the United Kingdom should consult professional advisors immediately.

GENERAL INFORMATION

1. Availability of Documents

For so long as the Notes are listed on the Official List of the ISE and admitted to trading on the Global Exchange Market copies (and English translations where the documents in question are not in English) of the following documents may be physically inspected at and are available from the specified offices of the paying agents (as defined in the Agency Agreement (as defined below)) during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

(a) the Agency Agreement;

(b) the Trust Deed;

(c) the audited consolidated financial statements of the Bank in respect of each of the financial years ended 31 December 2015 and 2016, unaudited interim condensed consolidated financial statements as at and for the six months ended 30 June 2017 and unaudited interim condensed consolidated financial statements as at and for the nine months ended 30 September 2017;

(d) the audited consolidated financial statements of the Issuer in respect of each of the financial years ended 31 December 2015 and 2016;

(e) the authorisations listed below;

(f) the Loan Agreement;

(g) the memorandum and articles of association of the Issuer; and

(h) the Charter of the Bank.

2. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes. The execution of the Loan Agreement by the Bank was approved by a resolution of its Board of Directors (the "**Board**") dated 27 February 2018 (minute No. 8). There are no other consents, approvals or authorisations in Ukraine that the Bank needs to obtain in connection with the Loan or the Loan Agreement.

To the best of the Issuer's belief, no consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the United Kingdom for the maintaining of the Loan or for the issue and performance of the Notes.

3. No Material Change

Save as disclosed in this Offering Circular, there has been no material adverse change or any development involving a prospective material adverse change in the conditions (financial or otherwise), general affairs or prospects of the Bank or its subsidiaries since 30 September 2017, the date of the last published interim condensed consolidated financial statements.

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank since 30 September 2017, the date of the last published interim condensed consolidated financial statements.

Save as disclosed in this Offering Circular, there has been no material adverse change in the financial position or prospects of the Issuer and the Bank since 31 December 2016, the date of the Issuer's and the Bank's last published audited financial statements.

4. Litigation

There are no litigation or other legal or administrative or arbitration proceedings against or affecting the Bank or its subsidiaries, current or pending or, to the best of the knowledge and belief of the Bank, threatened before any court, tribunal, arbitration panel or agency which may have or have had in the 12 months preceding the date of this document, a significant effect on the financial position of the Bank and its subsidiaries and which might be material in the context of the issue of the Notes.

Save as disclosed in this Offering Circular there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Bank is aware), in the 12 months preceding the date of this document, which may have, or have had in the recent past, significant effects on the Issuer or the Bank's financial position or profitability.

5. Conflict of Interest

There is no potential conflict of interest between any duties owed to the Bank by members of the administrative, management or supervisory bodies of the Bank and such members' private interests and/or other duties.

6. ISIN and Common Code

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1713473517 and the common code is 171347351.

7. Representative

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

Copies of this Offering Circular are available free of charge from the Issuer at 6th Floor, 65 Gresham Street, London EC2V 7NQ, United Kingdom (Fax: +44 203 1700 246).

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JSC “The State Export-Import Bank of Ukraine” Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2017 and review report

Joint Stock Company
“The State Export-Import Bank of Ukraine”
Interim Condensed Consolidated
Financial Statements

For six months ended 30 June 2017
Together with review report

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Translation from Ukrainian original

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Report on Review of Interim Financial Information

To the Shareholder and Board of Directors of Public Joint Stock Company "The State Export-Import Bank of Ukraine"

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (together referred to as "the Bank"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss and comprehensive income for the three- and six-month periods then ended, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Other matter

The interim condensed consolidated financial statements of the Public Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries as at 30 June 2016 and for the six-month period then ended were reviewed by another auditor who issued a review report dated 31 August 2016 with an unmodified conclusion and an emphasis of matter paragraph drawing attention to political and economic uncertainties in Ukraine.

The interim condensed consolidated statements of profit or loss and comprehensive income for the three-month period ended 30 June 2016 were not reviewed.

Ernst & Young Audit Services LLC

30 August 2017

Kyiv, Ukraine

A member firm of Ernst & Young Global Limited

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017
(thousands of Ukrainian hryvnia)

	Notes	30 June 2017 (unaudited)	31 December 2016
Assets			
Cash and cash equivalents	4	30,283,049	21,378,517
Due from credit institutions	5	1,079,741	1,544,476
Loans to customers	6	56,846,712	58,469,531
Investment securities:	7		
- designated at fair value through profit or loss		27,213,686	24,064,110
- available-for-sale		46,345,072	48,193,549
- held-to-maturity		117,827	139,098
Current income tax assets	9	43,601	101,677
Investment property		1,331,518	1,344,074
Property and equipment		1,994,602	2,120,672
Intangible assets	8	34,947	26,778
Deferred income tax asset	9	2,322,000	2,322,000
Other assets	11	795,364	697,747
Total assets		**168,408,119**	**160,402,229**
Liabilities			
Amounts due to credit institutions	12	24,733,778	27,931,388
Amounts due to customers	13	89,898,226	85,788,952
Eurobonds issued	14	36,063,943	37,562,345
Subordinated debt		3,358,483	3,495,895
Provisions for other losses	10	4,074	5,137
Other liabilities		255,848	258,246
Total liabilities		**154,314,352**	**155,041,963**
Equity			
Share capital	15	38,730,042	31,008,041
Revaluation reserves	15	362,308	725,335
Result from transactions with the shareholder	15	635,104	-
Accumulated deficit		(25,796,613)	(26,536,036)
Reserve and other funds		162,926	162,926
Total equity		**14,093,767**	**5,360,266**
Total equity and liabilities		**168,408,119**	**160,402,229**

Authorised for release and signed

29 August 2017

Acting Chairman of the Board **O.M. Alieksieieva**

Deputy Chief Accountant **O.I. Mogylna**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For six months ended 30 June 2017
(thousands of Ukrainian hryvnia)

	Notes	*2017* For three months ended 30 June	*2017* For six months ended 30 June	*2016* For three months ended 30 June	*2016* For six months ended 30 June
		(unaudited)			
Interest income					
Loans to customers		1,731,378	3,542,072	2,085,796	4,257,350
Investment securities other than designated at fair value through profit or loss		1,156,063	2,020,586	1,117,380	2,053,217
Due from credit institutions		23,390	46,590	67,300	207,586
Amounts due from the National Bank of		11,226	78,539	91,787	326,104
		2,922,057	**5,687,787**	**3,362,263**	**6,844,257**
Investment securities designed at fair value through profit or loss		305,745	588,530	209,943	376,859
		3,227,802	**6,276,317**	**3,572,206**	**7,221,116**
Interest expense					
Amounts due to customers		(1,188,399)	(2,226,101)	(1,395,695)	(2,794,080)
Eurobonds issued		(869,962)	(1,754,121)	(827,161)	(1,687,261)
Amounts due to the National Bank of Ukraine		-	-	(79,269)	(196,572)
Amounts due to credit institutions		(364,135)	(657,079)	(195,206)	(357,239)
Subordinated debt		(69,394)	(139,015)	(269,622)	(543,359)
		(2,491,890)	**(4,776,316)**	**(2,766,953)**	**(5,578,511)**
Net interest income		**735,912**	**1,500,001**	**805,253**	**1,642,605**
Allowance for loan impairment charge	5,6	(533,407)	(1,086,555)	(1,173,333)	(2,433,078)
Net interest expense after allowance for loan impairment		**202,505**	**413,446**	**(368,080)**	**(790,473)**
Commission income		228,961	448,374	256,080	536,391
Commission expense		(83,152)	(157,567)	(88,290)	(190,132)
Commission income, net	17	**145,809**	**290,807**	**167,790**	**346,259**
Net gains/(losses) from investment securities designated at fair value through profit and loss		(516,348)	(575,240)	(1,072,938)	508,137
Net gains/(losses) from investment securities available-for-sale:					
- net gains/losses previously recognised in other comprehensive income		(44,468)	(44,468)	(795)	3,841
- dealing		(14)	(14)	-	-
- reversal/(losses) on impairment		10,327	(2,376)	-	-
Net gains/(losses) from foreign currencies:					
- dealing		101,597	219,182	96,173	230,793
- translation differences		920,210	1,144,561	1,583,804	(940,248)
Net gains/(losses) from precious metals:					
- dealing		427	462	103	323
- changes in fair values		223	(366)	(243)	(4,247)
Other income		63,052	93,962	25,967	70,963
Non-interest income		**535,006**	**835,703**	**632,071**	**(130,438)**
Personnel costs	18	(227,747)	(398,446)	(198,593)	(368,977)
Depreciation and amortisation		(24,448)	(50,229)	(26,229)	(51,961)
(Charge)/reversal to other impairment and provisions	10	(3,595)	2,736	(24,793)	(31,185)
Loss on initial recognition of financial assets		(116)	(116)	-	-

	Notes	2017 *For three months ended 30 June*	2017 *For six months ended 30 June*	2016 *For three months ended 30 June*	2016 *For six months ended 30 June*
		(unaudited)			
Other operating expenses	18	(161,989)	(306,347)	(150,310)	(313,502)
Non-interest expense		**(417,895)**	**(752,402)**	**(399,925)**	**(765,625)**
Profit/(Loss) before tax		**465,425**	**787,554**	**31,856**	**(1,340,277)**
Income tax expenses	9	(56,666)	(57,331)	-	-
Profit /(Loss) for the period		**408,759**	**730,223**	**31,856**	**(1,340,277)**

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29 August 2017

Acting Chairman of the Board **O.M. Alieksieieva**

Deputy Chief Accountant **O.I. Mogylna**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For six months ended 30 June 2017
(thousands of Ukrainian hryvnia)

	2017		2016	
	For three months ended 30 June	*For six months ended 30 June*	*For three months ended 30 June*	*For six months ended 30 June*
	(unaudited)			
Profit/(loss) for the period	**408,759**	**730,223**	**31,856**	**(1,340,277)**
Other comprehensive loss:				
Other comprehensive (loss)/income to be reclassified through the consolidated statement of profit and loss:				
Net (losses)/gains on investment securities available-for-sale (Note 15)	(588,503)	(353,827)	123,442	(69,752)
Other comprehensive (loss)/income for the period, net of tax	**(588,503)**	**(353,827)**	**123,442**	**(69,752)**
Total comprehensive (loss)/income for the period	**(179,744)**	**376,396**	**155,298**	**(1,410,029)**

Authorised for release and signed

29 August 2017

Acting Chairman of the Board **O.M. Alieksieieva**

Deputy Chief Accountant **O.I. Mogylna**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2017
(thousands of Ukrainian hryvnia)

	Share capital	*Revaluaion reserve*	*Result from transactions with the shareholder*	*Accumula-ted deficit*	*Reserve and other funds*	*Total capital*
At 1 January 2016	**21,689,042**	**664,823**	**-**	**(25,577,130)**	**162,926**	**(3,060,339)**
Loss for the period	-	-	-	(1,340,277)	-	(1,340,277)
Other comprehensive income for the period	-	(69,752)	-	-	-	(69,752)
Total comprehensive (loss)/income for the period	**-**	**(69,752)**	**-**	**(1,340,277)**	**-**	**(1,410,029)**
Depreciation of revaluation reserve, net of tax (Note 15)	-	(9,199)	-	9,199	-	-
Increase in share capital (Note 15)	9,318,999	-	-	-	-	9,318,999
As at 30 June 2016 (unaudited)	**31,008,041**	**585,872**	**-**	**(26,908,208)**	**162,926**	**4,848,631**
At 1 January 2017	**31,008,041**	**725,335**	**-**	**(26,536,036)**	**162,926**	**5,360,266**
Profit for the period	-	-	-	730,223	-	730,223
Other comprehensive loss for the period	-	(353,827)	-	-	-	(353,827)
Total comprehensive loss for the period	**-**	**(353,827)**	**-**	**730,223**	**-**	**376,396**
Initial recognition of government bonds received as a contribution of the shareholder (Note 15)	-	-	635,104	-	-	635,104
Depreciation of revaluation reserve, net of tax (Note 15)	-	(9,200)	-	9,200	-	-
Increase in share capital (Note 15)	7,722,001	-	-	-	-	7,722,001
As at 30 June 2017 (unaudited)	**38,730,042**	**362,308**	**635,104**	**(25,796,613)**	**162,926**	**14,093,767**

Authorised for release and signed

29 August 2017

Acting Chairman of the Board **O.M. Alieksieieva**

Deputy Chief Accountant **O.I. Mogylna**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For six months ended 30 June 2017
(direct method)
(thousands of Ukrainian hryvnia)

	Notes	For six months ended 30 June 2017 (unaudited)	2016
Cash flows from operating activities			
Interest received		5,348,623	5,506,836
Interest paid		(4,695,004)	(5,439,453)
Commissions received		452,241	424,738
Commissions paid		(157,297)	(187,269)
Result from dealing in foreign currencies and precious metals		219,644	234,957
Personnel costs		(413,068)	(384,759)
Other operating income		51,765	52,501
Other operating and administrative expenses		(304,577)	(330,310)
Cash flow from operating activities before changes in operating assets and liabilities		**502,327**	**(122,759)**
Net (increase)/decrease in operating assets:			
Due from credit institutions		436,188	2,660,150
Loans to customers		(114,805)	(16,433)
Other assets		(97,284)	(155,642)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		(978,027)	898,762
Amounts due to the National Bank of Ukraine		73	(1,961,337)
Amounts due to customers		5,749,550	223,838
Other liabilities		18,426	70,407
Net cash flows from operating activities before income tax		**5,516,448**	**1,596,986**
Income tax paid		(666)	(192,630)
Net cash flows from operating activities		**5,515,782**	**1,404,356**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		4,811,528	18,976,206
Purchase of investment securities		(46,847)	(19,058,414)
Dividends received		92	-
Purchases of property, equipment and intangible assets		(22,373)	(23,834)
Proceeds from sale of property and equipment		130,997	-
Proceeds from sale of investment property		13,709	17,610
Net cash flows from investing activities		**4,887,106**	**(88,432)**
Cash flows from financing activities			
Proceeds from borrowings from credit institutions		340,012	1,149,606
Repayment of borrowings from credit institutions		(1,575,962)	(1,265,693)
Net cash flows from financing activities		**(1,235,950)**	**(116,087)**
Effect of exchange rates changes on cash and cash equivalents		(262,406)	294,471
Net change in cash and cash equivalents		**8,904,532**	**1,494,308**
Cash and cash equivalents, 1 January		**21,378,517**	**24,241,179**
Cash and cash equivalents, 30 June	4	**30,283,049**	**25,735,487**

Authorised for release and signed

29 August 2017

Acting Chairman of the Board **O.M. Alieksieieva**

Deputy Chief Accountant **O.I. Mogylna**

Selected notes on pages 7-30 form an integral part of these interim condensed consolidated financial statements

1. Principal activities

Joint Stock Company “The State Export-Import Bank of Ukraine” (hereinafter – “UkrEximBank” or the “Bank”) was founded in 1992. UkrEximBank operates under banking licence No.2 dated 5 October 2011 and a general licence to conduct foreign currency transactions No. 2-2 dated 18 November 2016.

As at 30 June 2017 and 31 December 2016, 100% of UkrEximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

UkrEximBank's head office is in Kyiv at 127 Antonovycha Str. It has 24 branches and 58 operating outlets (31 December 2016: 24 branches and 59 operating outlets) and two representative offices located in London and New-York. UkrEximBank and its branches form a single legal entity.

Traditionally the main focus of UkrEximBank's operations was the servicing of various export-import transactions. Currently UkrEximBank's customer base is diversified and includes a number of large industrial and State owned enterprises. UkrEximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and internationally, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the main activities of UkrEximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. UkrEximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The Bank’s mission is to provide financing to investment projects (public and private) supporting the development of high value-adding industries and to manufacturers of export-oriented and import-substituting products, to raise foreign credit facilities to improve the economic development of Ukraine (including implementation of energy-saving technologies), to service foreign economic operations of its customers and to act as a financial agent on behalf of the Ukrainian Government.

These interim condensed consolidated financial statements comprise UkrEximBank and its subsidiaries (together referred to as the “Bank”). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the trading and leasing business.

"Eximleasing" Ltd, a 100% owned subsidiary was founded in 2006 and registered in Ukraine, and operates in the trading and leasing business.

2. Basis of preparation and summary of accounting policies

Basis of preparation

These interim condensed consolidated financial statements for six months ended 30 June 2017 have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”).

These interim condensed consolidated financial statements do not include all information and data subject to disclosure in the annual financial statements and should be read in conjunction with the Bank’s annual consolidated financial statements as at 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These interim condensed consolidated financial statements are presented in thousands of Ukrainian hryvnia (“UAH”), unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Bank’s annual consolidated financial statements for the year ended 31 December 2016, except for the introduction of new standards as described in Note 2 to the annual consolidated financial statements of the Bank for the year ended 31 December 2016.

The following amended standards became effective 1 January 2017 as noted in the annual consolidated financial statements of the Bank for the year ended 31 December 2016, but did not have material impact on these interim condensed consolidated financial statements.

Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include low levels of liquidity in the capital markets and restrictive currency controls, which cause the national currency to be illiquid outside of Ukraine.

Stabilization and further recovery of the Ukrainian economy will be significantly impacted by the developments in the eastern part of the country, further international financial aid, external commodity markets conditions, and policies and decisions of the Verhovna Rada, the Government, the NBU and the Administration of the President with regard to social and economic reforms. Consequently, high risks, uncommon for mature market, are inherent to the banking business in Ukraine.

The Ukrainian economy is open and vulnerable to changes in the international commodities and capital markets as well. Certain improvement in raw iron, steel, seed oil international markets prices and record export sales of agricultural produce resulted in export indicators growth for goods and services. However, a higher volatility of international commodities markets together with an increase in goods and services import resulted in trade imbalance (deficit) growth.

Further receipts of the IMF tranche and financial aid from international financial organisations (“IFO”) together with international trade recovery facilitated stabilization and gradual appreciation of national currency against US dollar for the first half year 2017. As at 30 June of 2017 the official exchange rate of hryvnia to US Dollar was UAH 26.10 to 1 US Dollar (31 December 2016: UAH 27.19 to 1 US Dollar).

As a result, the Ukrainian economy recovery contunied in 2017. According to the State Statistics Service of Ukraine, the gross domestic product (“ the GDP”) grew by 0.6%, in the second quarter of 2017 as compared to the preceding quarter (as adjusted for seasonality) and by 2.4% as compared tot the second quarter of 2016.

A loss of production facilities in the eastern part of Ukraine and responsive measures such as a “freezing” of cargo transportation through the borderline between Ukrainian mainland and certain areas of Donetsk and Lugansk regions (“ORDLO”) led to the disruption of supply chains and logistics difficulaties. In consequence of this, manufacturing production in Ukraine fell by 0.4% for the first six months of the current year.

A growth in regulated prices, retail prices of manufacturers, gas prices and cost of services caused consumer inflation growth up to 7.9% for first six months of the current year (against December 2016).

“PrivatBank” nationalization resulted in futher growth in the capital owned by the Government in the banking system. A growth in non-performing loans, a high level of corporate debt and respective high credit risks caused low lending activity of banks in Ukraine. As such, a liquidity surplus available within the banking system was mostly invested in low risk financial instruments such as government securities.

A continuous threat of unemployment growth, excess of consumers’ spent over income, low liquidity and low efficiency of enterprises are having an adverse impact on borrowers’ ability to service and repay debts due to the Bank. Upon receipt of such information, the Bank promptly revises its estimates of future cash flows and implements necessary measures to sustain the Bank’s business, including the structural optimisation and cost reduction.

Further adverse developments of the above-mentioned conditions, especially in political conditions, as well as tensions in the eastern part of Ukraine may further adversely affect the Bank’s financial position and performance in a manner not currently determinable.

Changes in accounting policies

The following modified standards and interpretations became effective for the Bank from 1 January 2017:

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes.

The above amendments have no impact on the financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities’ liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.

These disclosures are not mandaroty for these interim condensed consolidated financial statements. The Bank will apply these amendments in its annual financial statements for the year 2017.

Future changes in accounting policies

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later. The Bank has not adopted early any of these new standards and interpretations.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings.

The standard is expected to have a significant impact on the Bank's loan impairment provisions. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted.

The Bank is currently assessing the impact of the amendment on its financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9.

The Bank is currently assessing the impact of the amendment on its financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Transfers of Investment Property - Amendments to IAS 40

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

The Bank is currently assessing the impact of the amendment on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank’s financial statements.

Significant accounting judgements and estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

3. Segment information

For management purposes, the Bank recognizes the following operating segments (business units):

Retail banking	Business Unit focussing on servicing retail customers on the full list of products, and selling products that are mainly in standardized form (as per the tariffs approved and the standard procedures) and generally do not require individual approach.
Corporate banking	Business Unit focussing on corporate customers selling products that require individual approach and are mainly offered to corporate clients.
Interbank and investments business	Business Unit focussing on the provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.

The Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured taking into account income and expenses from other segments.

Unallocated amounts include:

- income tax receivables and payables, the share of assets and costs associated with the work of the Bank's top management, i.e. personnel performing general management functions at the level of the whole Bank’s system and the Bank's staff, supporting directly the work of top management;
- the result of the revaluation of open currency position;
- the difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

During the six months ended 30 June 2017 the Bank had revenues from transactions with a single external customer that accounted for more than 10% of the total income of the Bank, namely UAH 2,438,284 thousand (30 June 2016: UAH 2,116,970 thousand). Revenues from transactions with this external customer is reflected in the segment “Interbank and investments business”.

Analysis of income of the Bank from banking products and services is presented in the intrest income and intrest expenses of the interim condensed consolidated statement of profit and loss.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Geographical information. Most revenues and capital expenditure relates to Ukraine. The Bank has no significant revenue from other countries.

The following table presents income and expenses, profit and loss, asset and liabilities information regarding the Bank's operating segments for six months ended 30 June 2017 (unaudited):

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	214,866	3,337,504	2,723,947	-	6,276,317
Commission income	257,871	179,475	11,028	-	448,374
Other income	8,380	79,955	145	5,482	93,962
Net gains from transactions with foreign currencies	65,145	77,184	94,078	1,127,336	1,363,743
Net gains from operations with banking metals	319	-	2,142	-	2,461
Gain from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	-	4,744	4,744
Reversal of loan impairment provisions	35,267	-	-	-	35,267
Reversal of provisions for impairment of other assets and for covering other losses	-	3,723	1,578	-	5,301
Income from other segments	1,364,437	1,530,849	2,760,030	(5,655,316)	-
Total income	1,946,285	5,208,690	5,592,948	(4,517,754)	8,230,169
Interest expenses	(1,011,885)	(1,214,685)	(2,549,746)	-	(4,776,316)
Commission expense	(97,004)	(54,732)	(5,622)	(209)	(157,567)
Loan impairment charge	-	(1,116,475)	(5,328)	(19)	(1,121,822)
Net loss from operations with banking metals	-	-	-	(2,365)	(2,365)
Loss from investment securities available-for-sale	-	(60)	(7,074)	-	(7,134)
Net losses on sale of investment securities available-for-sale, previously recognised in other comprehensive income	-	-	-	(44,468)	(44,468)
Loss from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	-	(575,240)	(575,240)
Personnel expenses	(162,603)	(133,573)	(44,960)	(57,310)	(398,446)
Depreciation and amortisation	(26,893)	(14,669)	(3,517)	(5,150)	(50,229)
Other operating expenses	(193,204)	(58,424)	(14,699)	(40,020)	(306,347)
Charge for impairment of other assets and for covering other losses	(2,403)	-	-	(162)	(2,565)
Loss from initial recognition of financial assets	-	-	(116)	-	(116)
Expenses from other segments	(155,789)	(2,667,811)	(2,568,436)	5,392,036	-
Segment results	296,504	(51,739)	393,450	149,339	787,554
Income tax expense					(57,331)
Gain for the period					730,223

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
Assets and liabilities as at 30 June 2017					
Segment assets	4,875,861	57,200,641	103,577,172		165,653,674
Unallocated assets				2,754,445	2,754,445
Total assets					168,408,119
Segment liabilities	33,977,385	56,317,718	63,828,500		154,123,603
Unallocated liabilities				190,749	190,749
Total liabilities					154,314,352
Other segment information					
Capital expenditure	(11 542)	(6 285)	(1 508)	(2 209)	(21 544)

The following table presents income and expenses, profit and loss information for six months ended 30 June 2016 (unaudited), and total assets and liabilities information regarding the Bank's operating segments as at 31 December 2016:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	229,753	4,047,276	2,944,087	-	7,221,116
Commission income	239,090	287,230	10,071	-	536,391
Other income	7,304	27,039	5,402	14,896	54,641
Net gains from transactions with foreign currencies	63,832	76,824	117,865	-	258,521
Net gains from operations with banking metals	255	2	11,000	-	11,257
Net gains on sale of investment securities available-for-sale, previously recognised in other comprehensive income	-	-	-	3,841	3,841
Gain from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	-	508,137	508,137
Gain from initial recognition of financial assets	-	-	16,322	-	16,322
Reversal of loan impairment provisions	128,118	-	-	-	128,118
Reversal of provisions for impairment of other assets and for covering other losses	-	-	2,127	-	2,127
Income from other segments	1,695,961	1,853,271	3,113,598	(6,662,830)	-
Total income	2,364,313	6,291,642	6,220,472	(6,135,956)	8,740,471
Interest expenses	(1,320,544)	(1,473,975)	(2,783,992)	-	(5,578,511)
Commission expense	(68,906)	(116,780)	(4,307)	(139)	(190,132)
Loan impairment charge	-	(2,451,577)	(109,619)	-	(2,561,196)
Net loss from operations with foreign currencies	-	-	-	(967,976)	(967,976)
Net loss from operations with banking metals	-	-	-	(15,181)	(15,181)
Personnel expenses	(176,273)	(110,835)	(33,739)	(48,130)	(368,977)
Depreciation and amortisation	(32,249)	(13,556)	(2,424)	(3,732)	(51,961)
Other operating expenses	(212,618)	(56,771)	(13,585)	(30,528)	(313,502)
Charge for impairment of other assets and for covering other losses	(931)	(29,433)	-	(2,948)	(33,312)
Expenses from other segments	(184,807)	(3,115,765)	(2,831,580)	6,132,152	-
Segment results	367,985	(1,077,050)	441,226	(1,072,438)	(1,340,277)
Loss for the period					(1,340,277)

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
Assets and liabilities as at 31 December 2016					
Segment assets	4,897,657	58,936,051	93,890,451		157,724,159
Unallocated assets				2,678,070	2,678,070
Total assets					160,402,229
Segment liabilities	34,059,319	52,575,312	68,328,691		154,963,322
Unallocated liabilities				78,641	78,641
Total liabilities					155,041,963
Other segment information					
Capital expenditure	(12,572)	(4,472)	(800)	(1,232)	(19,076)

The significant part of loss for six months of 2017 and profit for six months of 2016 from investment securities, evaluated at fair value with their revaluation displayed through profit and loss, occur due to government bonds revaluation adjusted for exchange rate shift.

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Current accounts with other credit institutions	12,322,926	8,884,608
Overnight deposits with other credit institutions	6,654,199	1,894,306
Deposits certificates of the National Bank of Ukraine up to 90 days	5,102,629	4,006,865
Current account with the National Bank of Ukraine	5,088,357	5,372,785
Cash on hand	1,114,938	1,219,953
Cash and cash equivalents	30,283,049	21,378,517

Ukrainian banks are required to keep mandatory reserves on a correspondent account with the National Bank Ukraine. Since January 2015, the amount of mandatory reserves that should be kept at the beginning of each operational day on a correspondent account with the National Bank of Ukraine should be no less than 40% of the reserve base (representing the average arithmetic sum of funds calculated for the period of determination in accordance with the mandatory reserve requirements for that period) that is calculated for the relevant period of allowance.

As at 30 June 2017 and 31 December 2016 the Bank meets all the NBU's mandatory reserve requirements.

Financing and investment transactions that did not require the use of cash and cash equivalents, and were excluded from the interim condensed consolidated statement of cash flows are as follows:

	For six months ended 30 June 2017	*For six months ended 30 June 2016*
	(unaudited)	
Non-cash financing and investment activities		
Issue of ordinary shares in exchange for government securities	7,722,001	9,318,999
Total non-cash financing and investment activities	7,722,001	9,318,999

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Loans and deposits due from other banks		
Ukrainian banks	1,345,439	1,706,729
OECD banks	334,016	518,053
CIS and other banks	65,266	43,989
	1,744,721	2,268,771
Amounts due from other credit institutions		
Current accounts with other credit institutions in precious metals	110,370	121,567
Other amounts due from credit institutions	73,554	3
	1,928,645	2,390,341
Less: Allowance for impairment	(848,904)	(845,865)
Due from credit institutions	1,079,741	1,544,476

The movements in allowance for impairment of amounts due from credit institutions are as follows:

	Loans and deposits
As 1 January 2017	845,865
Charge for the period	5,328
Translation differences	(1,135)
As 31 March 2017 *(unaudited)*	850,058
Charge for the period	317
Translation differences	(1,471)
As 30 June 2017 *(unaudited)*	848,904
As 1 January 2016	548,746
Reversal for the period	(354)
Translation differences	3,721
As 31 March 2016 *(unaudited)*	552,113
Charge for the period	108,509
Translation differences	(2,334)
As 30 June 2016 *(unaudited)*	658,288

6. Loans to customers

Loans to customers comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Commercial loans	102,094,782	103,403,198
Overdrafts	423,738	456,206
Financial lease receivables	78,954	94,664
Promissory notes	67,571	66,270
	102,665,045	104,020,338
Less: Allowance for impairment	(45,818,333)	(45,550,807)
Loans to customers	56,846,712	58,469,531

Loans have been extended to the following types of customers:

	30 June 2017 (unaudited)	*31 December 2016*
Private entities	81,302,499	82,390,783
State entities	19,791,846	20,039,806
Individuals	1,312,842	1,333,388
Municipal entities	257,858	256,361
	102,665,045	104,020,338

(thousands of Ukrainian hryvnia, unless otherwise stated)

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
As 1 January 2017	45,512,446	31,920	5,135	1,306	45,550,807
Charge/(reversal) for the period	561,812	(13,529)	-	(463)	547,820
Recoveries	3,663	-	-	-	3,663
Amounts written off	-	-	(152)	-	(152)
Translation differences	(97,330)	-	-	-	(97,330)
As 31 March 2017 *(unaudited)*	45,980,591	18,391	4,983	843	46,004,808
Charge/(reversal) for the period	538,614	(5,664)	(100)	240	533,090
Recoveries	18,297	-	-	-	18,297
Translation differences	(737,862)	-	-	-	(737,862)
As 30 June 2017 *(unaudited)*	45,799,640	12,727	4,883	1,083	45,818,333

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
As 1 January 2016	40,806,110	23,916	17,736	449	40,848,211
Charge/(reversal) for the period	1,260,648	(811)	21	241	1,260,099
Recoveries	1,073	-	-	-	1,073
Translation differences	3,132,759	-	-	-	3,132,759
As 31 March 2016 *(unaudited)*	45,200,590	23,105	17,757	690	45,242,142
Charge/(reversal) for the period	1,067,445	(2,466)	(443)	288	1,064,824
Recoveries	22,436	-	-	-	22,436
Amounts written off	-	-	(84)	-	(84)
Translation differences	(1,994,820)	-	-	-	(1,994,820)
As 30 June 2016 *(unaudited)*	44,295,651	20,639	17,230	978	44,334,498

Credit quality by category of financial assets

The Bank applies an approach to assess of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and rating class (PD-Rate) ranging from 1 to 17 (17 grades). In the table below, for loans that are neither past due nor individually impaired, high rating means the minimum level of credit risk. Other borrowers with good financial position and high debt service quality are included in the standard credit rating. Rating which is lower than standard have lower credit quality compared to previous ratings, but loans included into this category are not necessarily individually impaired. For loans that are past due or individually impaired, standard and substandard rating indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Low rating means that there is a high probability of default of loan, the borrower's activity is poor, loss making or ceased. For the exposures of foreign credit institutions, high rating is equal to or higher than BBB- rating by Fitch, standard rating is below BBB-, but higher than CCC+, substandard rating is equal to or lower than CCC+ by Fitch.

	Neither past due nor individually impaired			*Past due or individually impaired*		
As at 30 June 2017 (unaudited)	*High Rating*	*Standard Rating*	*Substandard Rating*	*Standard and Substandard Rating*	*Low Rating*	*Total*
Loans to corporate customers:						
Commercial loans	21,294,248	11,445,301	4,245,358	20,357,163	43,439,870	100,781,940
Overdrafts	147,584	239,647	20,706	15,801	-	423,738
Finance lease receivables	-	-	-	-	78,954	78,954
Promissory notes	55,165	12,406	-	-	-	67,571
	21,496,997	11,697,354	4,266,064	20,372,964	43,518,824	101,352,203
Loans to individuals	70,055	28,993	10,317	120,132	1,083,345	1,312,842
Total	21,567,052	11,726,347	4,276,381	20,493,096	44,602,169	102,665,045

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Neither past due nor individually impaired			*Past due or individually impaired*		
As at 30 June 2017 (unaudited)	*High Rating*	*Standard Rating*	*Substandard Rating*	*Standard and Substandard Rating*	*Low Rating*	*Total*
Provision for impairment	(308,338)	(312,026)	(406,959)	(8,075,285)	(36,715,725)	(45,818,333)
Total after provision for impairment	21,258,714	11,414,321	3,869,422	12,417,811	7,886,444	56,846,712

	Neither past due nor individually impaired			*Past due or individually impaired*		
As at 31 December 2016	*High Rating*	*Standard Rating*	*Substandard Rating*	*Standard and Substandard Rating*	*Low Rating*	*Total*
Loans to corporate customers:						
Commercial loans	9,132,815	21,269,325	7,516,521	25,175,588	38,975,561	102,069,810
Overdrafts	86,577	205,730	31,863	132,036	-	456,206
Finance lease receivables	82,378	-	7,151	-	5,135	94,664
Promissory notes	57,098	9,172	-	-	-	66,270
	9,358,868	21,484,227	7,555,535	25,307,624	38,980,696	102,686,950
Loans to individuals	7,371	46,352	13,932	171,969	1,093,764	1,333,388
Total	9,366,239	21,530,579	7,569,467	25,479,593	40,074,460	104,020,338
Provision for impairment	(113,889)	(843,220)	(626,024)	(8,193,535)	(35,774,139)	(45,550,807)
Total after provision for impairment	9,252,350	20,687,359	6,943,443	17,286,058	4,300,321	58,469,531

The Bank's policy is to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The ageing analysis of past due but not impaired loans is provided below:

As 30 June 2017 (unaudited)	*Less than 30 days*	*From 31 to 60 days*	*From 61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Loans to corporate customers	769,148	155,177	-	260	924,585
Loans to individuals	42,328	1,766	2,484	-	46,578
Total	811,476	156,943	2,484	260	971,163

As 31 December 2016	*Less than 30 days*	*From 31 to 60 days*	*From 61 to 90 days*	*Total*
Loans to customers:				
Loans to corporate customers	11,913	275	1,843	14,031
Loans to individuals	11,071	9,289	1,562	21,922
Total	22,984	9,564	3,405	35,953

7. Investment securities

As at 30 June 2017 and 31 December 2016 investment securities designated at fair value through profit and loss presented Ukrainian state bonds, nominal value of which will be indexed according to increases in the average interbank exchange rate of Hryvnia to US dollar per month, prior to the month of issue, and the average exchange rate of Hryvnia to US dollar per month, prior to maturity month. The Bank decided not to separate an embedded derivative instrument and to evaluate an instrument as a whole at its fair value, recognising revaluation as profit or loss.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Available-for-sale investment securities comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Ukrainian state bonds	44,745,153	46,163,120
Corporate bonds	1,583,545	2,018,739
Corporate shares	16,374	11,690
Available-for-sale investments	46,345,072	48,193,549

Held-to-maturity investment securities comprise the following:

	30 June 2017 (unaudited)		*31 December 2016*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Ukrainian state bonds	122,705	117,827	147,246	139,098
Held-to-maturity investments		117,827		139,098

8. Intangible assets

The movements in intangible assets are as follows:

	Computer software and licenses
Cost	
At 31 December 2016	80,228
Additions	12,378
Disposals	(47)
At 30 June 2017 *(unaudited)*	92,559
Accumulated depreciation	
At 31 December 2016	(53,450)
Charge for the year	(4,209)
Disposals	47
At 30 June 2017 *(unaudited)*	(57,612)
Net book value:	
At 31 December 2016	26,778
At 30 June 2017 *(unaudited)*	34,947

9. Income tax

The corporate income tax charge comprises:

	2017		*2016*	
	For three months ended 30 June	*For six months ended 30 June*	*For three months ended 30 June*	*For six months ended 30 June*
		(unaudited)		
Current tax charge	(56,666)	(57,331)	(363,279)	(363,279)
Deferred tax credit	-	-	363,279	363,279
Income tax charge	(56,666)	(57,331)	-	-

As at 30 June 2017, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 18% (31 December 2016: 18%).

(thousands of Ukrainian hryvnia, unless otherwise stated)

Income tax assets consist of the following:

	30 June 2017 (unaudited)	*31 December 2016*
Current tax assets	43,601	101,677
Deferred income tax assets	2,322,000	2,322,000
Income tax assets	2,365,601	2,423,677

10. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Other assets	*Guarantees and commitments*	*Total*
At 1 January 2017	400,408	5,137	405,545
Charge/(reversal) for the period	(7,292)	961	(6,331)
Amounts written-off	(2,155)	-	(2,155)
Translation differences	45	15	60
At 31 March 2017 *(unaudited)*	391,006	6,113	397,119
Charge/(reversal) for the period	5,649	(2,054)	3,595
Amounts written-off	(2)	-	(2)
Translation differences	(567)	15	(552)
At 30 June 2017 *(unaudited)*	396,086	4,074	400,160

	Other assets	*Guarantees and commitments*	*Total*
At 1 January 2016	255,304	22,213	277,517
Charge for the period	2,428	3,964	6,392
Translation differences	4,178	1,663	5,841
At 30 March 2016 *(unaudited)*	261,910	27,840	289,750
Charge/(reversal) for the period	43,787	(18,994)	24,793
Translation differences	(2,576)	(729)	(3,305)
At 30 June 2016 *(unaudited)*	303,121	8,117	311,238

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Other assets

Other assets comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Other financial assets		
Other accrued income	328,276	328,429
Transit accounts in respect of card operations	280,972	211,404
Receivables on transactions with customers	171,780	138,880
Service fee on financial guarantees issued	9,881	10,208
Other	115	120
	791,024	689,041
Less: Allowance for impairment (Note 10)	(330,953)	(333,326)
Other financial assets	460,071	355,715
Other assets		
Other tax assets, except those related to income tax	260,027	259,989
Precious metals	56,526	50,025
Prepayments	33,163	33,913
Cash and cash equivalents, the presence of which is not confirmed	32,590	42,477
Inventories	17,616	21,127
Other	504	1,583
	400,426	409,114
Less: Allowance for impairment (Note 10)	(65,133)	(67,082)
Other assets	335,293	342,032
Total other assets	795,364	697,747

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Current accounts		
Ukrainian banks	1,539,899	2,544,634
Correspondent account to the National Bank of Ukraine	732	659
CIS and other banks	405	826
	1,541,036	2,546,119
Loans and deposits		
International financial institutions	19,919,412	21,878,151
OECD banks	3,196,144	3,390,535
Ukrainian banks	77,172	116,309
	23,192,728	25,384,995
Other amounts due to credit institutions	14	274
Amounts due to credit institutions	24,733,778	27,931,388
Held as security against guarantees (Note 16)	-	24,528

For the purposes of the consolidated cash flow statement presentation, the Bank allocates funds attracted from credit institutions between operating and financing activitities. Funds raised from the Ukrainian banks include guarantee deposits taken and were included in the category of funds for operational activities, and funds from foreign banks, received for longer-term funding purposes – for financing activities.

13. Amounts due to customers

Amounts due to customers comprise:

	30 June 2017 (unaudited)	31 December 2016
Current accounts		
Legal entities	20,851,832	17,638,612
Budget organizations	5,078,351	4,424,952
Individuals	3,872,469	3,516,537
Funds under the Bank's management	1	8,077
	29,802,653	25,588,178
Time deposits		
Legal entities	39,587,196	39,218,415
Individuals	20,189,377	20,982,359
Budget organizations	319,000	-
	60,095,573	60,200,774
Amounts due to customers	89,898,226	85,788,952
Held as security against letters of credit (Note 16)	679,969	979,840
Held as security against loans to customers	473,507	445,349
Held as security against guarantees and avals (Note 16)	362,577	446,921
Held as security against undrawn loan commitments (Note 16)	2,449	1,805

14. Eurobonds issued

	30 June 2017 (unaudited)		31 December 2016	
	Nominal value (thousand of USD)	Carrying value	Nominal value (thousand of USD)	Carrying value
April 2010 issue	500,000	13,233,736	500,000	13,786,149
October 2010 issue	250,000	6,616,868	250,000	6,893,074
January 2013 issue	500,000	13,511,116	500,000	14,069,268
April 2013 issue	100,000	2,702,223	100,000	2,813,854
Eurobonds issued		36,063,943		37,562,345

15. Equity

As at 30 June 2017, the Bank's authorised issued share capital comprised 26,490,412 (31 December 2016: 21,208,750) ordinary inscribed shares with a nominal value of UAH 1,462.04 per share (31 December 2016: 1,462.04 per share). As at 30 June 2017, 26,490,412 ordinary registered shares were fully paid and registered (31 December 2016: all shares were fully paid and registered).

In February 2017 according to the Resolution of the Cabinet of Ministers of Ukraine No 54 dated 01 February 2017, the Bank's share capital was increased by UAH 3,022,000 thousand through the issue of 2,066,975 additional shares with the nominal value of UAH 1,462.04 each with 100 percent of these shares kept by the State. These shares were registered in March 2017.

The State of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to government indexed bonds with the nominal value of UAH 3,022,001 thousand with 10-year maturity and interest rate of 6% p.a.

At the date of initial recognition the difference between the nominal and fair value of government bonds received as shareholder contribution was valued at UAH 635,104 thousand.

In March 2017 according to the Resolution of the Cabinet of Ministers of Ukraine No 123 dated 06 March 2017, the Bank's share capital was increased by UAH 4,700,001 thousand through the issue of 3,214,687 additional shares with the nominal value of UAH 1,462.04 each with 100 percent of these shares kept by the State. These shares were registered in April 2017.

(thousands of Ukrainian hryvnia, unless otherwise stated)

The State of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to government bonds with the nominal value of UAH 4,700,001 thousand with 15-year maturity and interest rate of 9% p.a.

In January 2016, according to the Resolution of the Cabinet of Ministers of Ukraine No 33 dated 27 January 2016 the Bank’s share capital was increased by UAH 9,318,999 thousand through issue of 6,373,970 additional shares with nominal value of UAH 1,462.04 each with 100% of these shares kept by the State. In April 2016 these shares were registered.

The State of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 9,319,000 thousand with 10-year maturity and interest rate of 6% p.a.

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available for sale*	*Revaluation reserves*
At 1 January 2017	1,021,863	(296,528)	725,335
Depreciation of revaluation reserve, net of tax	(4,531)	-	(4,531)
Net unrealised losses on available-for-sale investment securities	-	234,676	234,676
At 31 March 2017 *(unaudited)*	1,017,332	(61,852)	955,480
Depreciation of revaluation reserve, net of tax	(4,669)	-	(4,669)
Losses on investment securities available-for-sale reclassified to the interim condensed consolidated statement of profit and loss	-	44,482	44,482
Net unrealised losses on available-for-sale investment securities	-	(632,985)	(632,985)
At 30 June 2017 *(unaudited)*	1,012,663	(650,355)	362,308

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available for sale*	*Revaluation reserves*
At 1 January 2016	1,040,263	(375,440)	664,823
Depreciation of revaluation reserve, net of tax	(4,600)	-	(4,600)
Gains on investment securities available-for-sale reclassified to the interim condensed consolidated statement of profit and loss	-	(4,636)	(4,636)
Net unrealised gains on available-for-sale investment securities	-	(188,558)	(188,558)
At 31 March 2016 *(unaudited)*	1,035,663	(568,634)	467,029
Depreciation of revaluation reserve, net of tax	(4,599)	-	(4,599)
LossesIn on investment securities available-for-sale reclassified to the interim condensed consolidated statement of profit and loss	-	795	795
Net unrealised gains on available-for-sale investment securities	-	122,647	122,647
At 30 June 2016 *(unaudited)*	1,031,064	(445,192)	585,872

(thousands of Ukrainian hryvnia, unless otherwise stated)

Nature and purpose of revaluation reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised losses on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

16. Commitments and contingent financial liabilities

Commitments and contingent financial liabilities comprise:

	30 June 2017 (unaudited)	*31 December 2016*
Guarantees	2,809,170	3,748,869
Letters of credit	697,075	1,115,770
Avals on promissory notes	300,163	117,620
Undrawn loan commitments	296,277	273,651
	4,102,685	5,255,910
Less – Provisions (Notes 10)	(4,074)	(5,137)
Financial commitments and contingencies (before deducting collateral)	4,098,611	5,250,773
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Notes 12, 13)	(1,044,995)	(1,453,094)
Financial commitments and contingencies	3,053,616	3,797,679

17. Net commission income

Net commission income comprises:

	2017		*2016*	
	For three months ended 30 June	*For six months ended 30 June*	*For three months ended 30 June*	*For six months ended 30 June*
	(unaudited)			
Commission income				
Cash and settlement service	156,966	304,676	148,431	279,343
Guarantees and letters of credit	30,857	64,207	68,672	181,253
Operations with banks	30,766	60,867	28,619	55,325
Credit servicing commission	2,385	3,880	2,825	5,766
Other	7,987	14,744	7,533	14,704
	228,961	448,374	256,080	536,391
Commission expense				
Cash and settlement service	(78,048)	(144,904)	(57,710)	(107,389)
Guarantees and letters of credit	(3,162)	(8,516)	(29,106)	(79,756)
Currency conversion	(456)	(1,351)	(448)	(1,058)
Other	(1,486)	(2,796)	(1,026)	(1,929)
	(83,152)	(157,567)	(88,290)	(190,132)
Net commission income	145,809	290,807	167,790	346,259

(thousands of Ukrainian hryvnia, unless otherwise stated)

18. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2017		2016	
	For three months ended 30 June	*For six months ended 30 June*	*For three months ended 30 June*	*For six months ended 30 June*
	(unaudited)			
Salaries and bonuses	190,546	329,657	166,320	305,533
Charges on payroll	37,201	68,789	32,273	63,444
Personnel expenses	227,747	398,446	198,593	368,977
Payables to the Individual Deposit Guarantee Fund	57,826	111,444	55,456	112,939
Repair and maintenance of fixed assets	28,158	47,596	22,318	45,717
Operating taxes	10,019	23,926	18,432	33,609
Maintenance of premises	6,614	19,484	5,930	16,873
Expenses for cash collection	13,743	19,154	5,672	11,002
Security	8,254	18,611	8,558	15,685
Electronic and data processing expenses	8,642	12,936	6,192	12,635
Rent of premises	4,590	10,604	6,702	13,928
Legal and advisory services	9,022	9,763	3,429	15,778
Household expenses	3,707	9,026	4,009	8,731
Communication services	2,658	5,861	3,142	6,167
Marketing and advertising	2,699	3,242	1,561	2,950
Business travel and related expenses	1,512	2,271	2,130	3,622
Representative offices expenses	941	1,679	1,153	2,540
Other	3,604	10,750	5,626	11,326
Other operating expenses	161,989	306,347	150,310	313,502

Expenses for payment to the non-state pension fund for 6 months ended 30 June 2017 comprised UAH 5,627 thousand (30 June 2016: UAH 5,206 thousand).

19. Fair value of assets and liabilities

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

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

	30 June 2017 (unaudited)			*31 December 2016*		
	Carrying value	*Fair value*	*Unrecognised gain / (loss)*	*Carrying value*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and cash equivalents	30,283,049	30,283,049	-	21,378,517	21,378,517	-
Amounts due from credit institutions	969,371	969,371	-	1,422,909	1,422,909	-
Loans to customers	56,846,712	57,211,754	365,042	58,469,531	58,414,201	(55,330)
Securities held to maturity	117,827	118,681	854	139,098	142,295	3,197
Other assets	460,071	460,071	-	355,715	355,715	-
Financial liabilities						
Amounts due to credit institutions	24,733,778	24,733,778	-	27,931,388	27,931,388	-
Amounts due to customers	89,754,660	89,704,338	50,322	85,622,585	85,592,252	30,333
Eurobonds issued	36,063,943	37,745,888	(1,681,945)	37,562,345	37,014,419	547,926
Subordinated debt	3,358,483	3,224,954	133,529	3,495,895	2,961,457	534,438
Other liabilities	55,640	55,640	-	46,853	46,853	-
Total unrecognized change in unrealized fair value			(1,132,198)			1,060,564

(thousands of Ukrainian hryvnia, unless otherwise stated)

The following describes the methodologies and assumptions used to determine fair values for the financial instruments that are not recorded at fair value in the interim condensed consolidated statement of financial position.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates at the date 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 listed 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.

Fair value of financial assets and liabilities carried at fair value

The Bank uses the following hierarchy of measurement techniques to determine and disclose fair values of financial assets, including changes in fair value as a result of alternative assumptions used in the measurement model:

- Level 1: for financial instruments whose fair values are measured using quoted market prices in active markets;
- Level 2: where no market quotations are available for a financial instrument, the fair value is measured using valuation techniques based on assumptions supported by observable market prices and rates available at the reporting date, i.e. either directly or indirectly based on observable market inputs;
- Level 3: for financial instruments whose fair values cannot be measured using market quotations or measurement models with observable inputs, the Bank uses measurement techniques using unobservable inputs that have material impact on reported fair values of financial instruments. This approach is appropriate for investments in non-listed shares and debt securities.

Analysis of financial instruments measured at fair value by level in the fair value hierarchy is presented in the table below:

	Fair value recurring measurements		
As 30 June 2017 (unaudited)	*Level 2*	*Level 3*	*Total*
Current accounts with other credit institutions in precious metals	110,370	-	110,370
Investment securities at fair value through profit or loss	27,213,686	-	27,213,686
Available-for-sale investment securities	46,328,698	16,374	46,345,072
Total assets	73,652,754	16,374	73,669,128
Amounts due to customers in precious metals	143,566	-	143,566
Total liabilities	143,566	-	143,566

(thousands of Ukrainian hryvnia, unless otherwise stated)

As 31 December 2016	*Fair value recurring measurements* Level 2	*Level 3*	*Total*
Current accounts with other credit institutions in precious metals	121,567	-	121,567
Investment securities at fair value through profit or loss	24,064,110	-	24,064,110
Available-for-sale investment securities	48,181,859	11,690	48,193,549
Total assets	72,367,536	11,690	72,379,226
Amounts due to customers in precious metals	166,367	-	166,367
Total liabilities	166,367	-	166,367

The Bank assesses whether any transfers between levels of the fair value hierarchy are required at the end of each reporting period. During six months ended 30 June 2017, the Bank did not transfer any financial assets from one level of the fair value hierarchy to another level of the fair value hierarchy.

The Bank measures financial assets by discounting cash flows from these instruments using the rates determined on the bases on non-observable data.

Movements in level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which is recorded at fair value:

	At 1 January 2017	*Total gain recorded in interim condensed consolidated statement of profit and loss*	*As at 30 June 2017 (unaudited)*
Available-for-sale investment securities	11,690	4,684[a]	16,374
Total assets	11,690	4,684	16,374

	At 1 January 2016	*Total gain recorded in interim condensed consolidated statement of profit and loss*	*As at 30 June 2016 (unaudited)*
Available-for-sale investment securities	11,690	24[a]	11,714
Total assets	11,690	24	11,714

[a] for six months ended 30 June 2017 UAH 4,684 thousand of gain (impairment loss cancellation) is included in "Impairment losses on investment securities available-for-sale" (for six months ended 30 June 2016: UAH 24 thousand included in "Other income").

The table below shows the quantitative information as at 30 June 2017 about significant unobservable inputs used for the fair valuation of assets classified as those of the 3 level of the fair value hierarchy:

As 30 June 2017 (unaudited)	*Carrying value*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Available-for-sale investment securities	16,374	Discounted cash flows	Expected profitability Risk factor	Corporate: 8.54% - 15.90% Corporate: 0 – 1.0

As 31 December 2016	*Carrying value*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Available-for-sale investment securities	11,690	Discounted cash flows	Expected profitability Risk factor	Corporate: 13.50% - 32.00% Corporate: 0 – 1.0

(thousands of Ukrainian hryvnia, unless otherwise stated)

Gains for level 3 financial instruments included in interim condensed consolidated profit and loss report.

	For six months 2017 (unaudited)	
	Unealised gains	*Total*
Total gains included in profit and loss for the period	4,684	4,684

	For six months 2016 (unaudited)	
	Unealised gains	*Total*
Total gains included in profit and loss for the period	24	24

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

In order to determine possible alternative assumptions, the Bank uses key unobservable inputs as follows:

- For equities, the Bank adjusted the assumptions as to the possibility of bankruptcy or losses that were used to determine the credit component in fair value. The adjustment made was to increase the assumption up to 100% subject to individual characteristics of the investee;
- For debt securities classified as level 3, the Bank adjusted the probability of changes in interest rate assumption applied for discounting cash flows from debt securities within the range of +/- 30% (30 June 2016: +/- 30%) of the level as at the end of the reporting period.

20. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if they are under common control, or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with entities owned, both directly and indirectly, by Ukrainian government, and key management personnel.

The outstanding balances with key management personnel as at 30 June 2017 and 31 December 2016, and related income and expense for six months ended 30 June 2017 nd 30 June 2016 are as follows:

	30 June 2017 (unaudited)	*31 December 2016*
	Key management personnel	*Key management personnel*
Loans to customers, gross	229	401
Less: allowance for impairment	(25)	(269)
Loans to customers, net	204	132
Current accounts	4,327	4,399
Time deposits	6,830	5,511
Amounts due to customers	11,157	9,910
	(16)	(7)

	For six months ended 30 June	
	2017	*2016*
	(unaudited)	
	Key management personnel	*Key management personnel*
Interest income on loans	14	8
Interest expense on customers' deposits	(396)	(98)
Commission income	7	2
Translation differences	130	(956)

(thousands of Ukrainian hryvnia, unless otherwise stated)

The total remuneration and other benefits paid to key management personnel for six months ended 30 June 2017 is UAH 8,879 thousand (including UAH 116 thousand of payment to the non-state pension fund) (for six months ended 30 June 2016: UAH 10,089 thousand (including UAH 156 thousand of payment to the non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of Ukraine and entities controlled, either directly or indirectly, or significantly influenced by the state. The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, transactions with securities, cash and settlement transactions.

Balances with government-related entities which are individually significant in terms of the carrying amount as at 30 June 2017 (unaudited) are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to the NBU*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State entities	-	-	2,461,133	-	-	-
Client 2	State entities	-	-	1,511,301	-	-	-
Client 3	Agriculture and food industry	-	-	27,589,253	-	-	-
Client 4	Extractive industry	-	9,991,940	-	-	-	-
Client 5	Extractive industry	-	-	2,898,491	-	-	-
Client 6	Finance	10,190,987	-	-	732	-	-
Client 7	Power engineering	-	5,150,168	1,263,354	-	-	-
Client 8	Trade	-	-	1,168,511	-	-	760,824
Client 9	Trade	-	-	-	-	-	748,701
Client 10	Mechanical engineering	-	2,334,662	-	-	-	305,261
Client 11	Transport and communications	-	-	910,968	-	-	-
Other	-	-	656,589	6,986,161	-	262,432	-

Balances with government-related entities which are individually significant in terms of the carrying amount as at 31 December 2016 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to the NBU*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State enteties	-	-	1,820,863	-	-	-
Client 2	State enteties	-	-	1,514,166	-	-	-
Client 3	Agriculture and food industry	-	-	27,358,937	-	-	-
Client 4	Extractive industry	-	10,581,585	-	-	-	-
Client 5	Extractive industry	-	1,173,526	-	-	-	-
Client 6	Finance	5,372,785	-	-	659	-	-
Client 12	Finance	-	-	-	-	364,134	-
Client 8	Trade	-	-	1,644,607	-		1,357,720
Client 9	Trade	-	-	-	-	-	847,445
Client 7	Power engineering	-	3,452,694	-	-	-	-
Client 10	Mechanical engineering	-	2,290,686	-	-	-	311,872
Other	-	-	-	7,376,726	-	-	-

For the six-month period ended 30 June 2017, the Bank recorded UAH 1,082,084 thousand (six months 2016: UAH 1,427,545 thousand) of interest income, including interest income from operations with the NBU deposit certificates with maturity up to 90 days – UAH 78,539 thousand (for the six month period 2016: 326,104) and UAH 885,237 thousand (six months 2016: UAH 1,270,175 thousand) of interest expenses from transactions with the government-related entities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 30 June 2017 and 31 December 2016, the Bank's investments in debt securities issued by the government or the government-related corporate entities were as follows:

	30 June 2017 (unaudited)	*31 December 2016*
Available-for-sale investment securities	46,343,863	48,192,169
Investment securities at fair value through profit or loss	27,213,686	24,064,110
Investment securities held to maturity	117,827	139,098

For the six-month period ended 30 June 2017, the Bank recorded UAH 2,438,284 thousand (for the six month period 2016: UAH 2,116,970 thousand) of interest income from transactions with government bonds, and UAH 170,831 thousand from transactions with other investment securities (for the six-month period 2016: UAH 231,548 thousand).

21. Capital adequacy

The Bank pro-actively manages its exposures to ensure it that it maintains an adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business activities and maximise the value to the shareholder.

The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

NBU capital adequacy ratio

In 2015 the NBU stress-tested 20 largest Ukrainian banks, including the Bank. Special requirements to minimum regulatory capital adequacy ratio of the stress-tested banks were introduced.

The Bank's regulatory capital adequacy ratio was as follows:

	30 June 2017 (unaudited)	*31 December 2016*
Main capital	7,517,561	3,908,734
Additional capital, calculated	3,893,214	4,589,478
Additional capital, included in calculation of total capital (limited to main capital)	3,893,214	3,908,734
Total capital	11,410,775	7,817,468
Risk weighted assets	67,020,247	79,030,619
Capital adequacy ratio	17.03%	9.89%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses, and Tier 2 capital (Additional capital), consisting of provisions against highest quality credit operations, asset revaluation reserve, current profit, subordinated debt and retained earnings. For regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratios, computed in accordance with the Basel Capital Accord 1988 were as follows:

	30 June 2017 (unaudited)	*31 December 2016*
Tier 1 capital	13,096,355	4,634,931
Tier 2 capital, calculated	4,259,786	3,042,801
Tier 2 capital, included in calculation of total capital	4,259,786	3,042,801
Total capital	17,356,141	7,677,732
Risk weighted assets	73,276,484	79,994,257
Tier 1 capital adequacy ratio	17.9%	5.8%
Total capital adequacy ratio	23.7%	9.6%

JSC "The State Export-Import Bank of Ukraine" Annual Consolidated Financial Statements for the year ended 31 December 2016 and independent auditor's report

Joint Stock Company
“The State Export-Import Bank of Ukraine”

Annual consolidated financial statements

for the year ended 31 December 2016
and independent auditor’s report

Translation from Ukrainian original

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Independent auditor's report

To the Shareholders and Board of Directors of Joint Stock Company "The State Export-Import Bank of Ukraine"

Opinion

We have audited the consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (together referred to as "the Bank"), which comprise the consolidated statement of financial position (consolidated balance sheet) as at 31 December 2016, the consolidated statement of profit and loss (consolidated income statement), the consolidated statement of comprehensive income, the consolidated statement of changes in equity (consolidated statement of equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Valuation of allowance for impairment of loans to customers

The appropriateness of allowance for impairment on loans to customers is a key area of judgment for the Bank's management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and fair value of collateral.

The use of different modelling techniques and assumptions could produce significantly different estimates of allowance for impairment on loans to customers. Taking into account the significance of the loans to customers balances (36% of total assets) and high level of subjectivity of assumptions, we considered valuation of allowance for impairment on loans to customers as a key audit matter.

Our audit procedures included the assessment of the methodology used by the Bank to identify impairment indications and calculation of allowance for impairment, testing of input data and analysis of assumptions. For the allowance for impairment calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification including assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral. For the allowance for impairment calculated on a collective basis, we tested the underlying models including the inputs to those models and their mathematical accuracy.

We assessed the Bank's information about the allowance for impairment on loans to customers disclosed in Notes 8, 25, 26 and 27 to the consolidated financial statements.

Valuation of government bonds

Valuation of government bonds and related embedded derivate financial instruments was a key area of judgments for management due to complexity of estimations and subjective valuation techniques. Taking into account the significance of the carrying amount of government bonds and related embedded derivative financial instruments to the consolidated financial statements and related estimation uncertainty, we considered valuation of the above assets as a key audit matter.

Notes 9 and 26 to the consolidated financial statements provides information on the government bonds and related embedded derivative financial instruments.

Our audit procedures in respect of the valuation of government bonds included inquiries of the Bank's management about the significant assumptions applied, assessment and testing of inputs used, assessing mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the consolidated statement of financial position as at 31 December 2016. We involved our valuation specialists to evaluate the methodology and assumptions used. We assessed the Bank's disclosures in relation to the government bonds and related embedded derivative financial instruments.

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Valuation of deferred tax assets

The Bank has significant recognised and unrecognised deferred tax asset balances as at 31 December 2016. Recognition of deferred tax asset is dependent on the availability of future taxable profits. There is an inherent uncertainty involved in forecasting future taxable profits. The analysis of the recognition and recoverability of deferred tax asset was one of the matters of most significance to our audit because the amounts are material, the assessment process is judgmental, and is based on assumptions that are affected by expected future market and economic conditions.

Our audit procedures included evaluation of the Bank's deferred tax asset assumptions in relation to the availability of sufficient future taxable profits based on the business plan and the forecast, discussions of underlying judgements with the Bank's management, testing tax positions and timing of future deductions. In addition, we assessed the historical accuracy of management's estimates by comparing budgeted and actual data. We also compared the assumptions used in the business plan and the forecast with available banking market information and the overall Ukrainian economy projections.

We also analysed and tested the deferred tax asset disclosures prepared by the Bank and presented in Notes 4 and 13.

Other matter

The consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries as at 31 December 2015 and for the year then ended were audited by another auditor who issued an auditor's report dated 5 April 2016 with an unmodified opinion and an emphasis of matter paragraph drawing attention to political and economic uncertainties in Ukraine

Other information included in the Bank's Annual Report

Other information consists of the Annual report of Joint Stock Company "The State Export-Import Bank of Ukraine" other than consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of Joint Stock Company "The State Export-Import Bank of Ukraine" is expected to be provided to us after the date of this auditor's report.

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

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

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Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in

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the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank's subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Bank. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board 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 the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated 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 partner in charge of the audit resulting in this independent auditor's report is Yulia Studynska.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

8 June 2017

м. Київ * Україна * Товариство з обмеженою відповідальністю * №1 «Ернст енд Янг Аудиторські Послуги» Ідентифікаційний код 33306921

Svistich O.M.
General Director

Studynska Y.S.
Auditor's certificate B № 0131
Valid till 24 December 2019

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET)

As at 31 December 2016

(thousands of Ukrainian hryvnia)

	Notes	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	6	21,378,517	24,241,179
Due from credit institutions	7	1,544,476	4,083,743
Loans to customers	8	58,469,531	55,099,903
Investment securities:	9		
- designated at fair value through profit or loss		24,064,110	9,924,610
- available-for-sale		48,193,549	41,191,570
- held-to-maturity		139,098	230,912
Tax assets	13	101,677	293,122
Investment property	10	1,344,074	1,566,942
Property and equipment	11	2,120,672	2,170,944
Intangible assets	12	26,778	17,584
Deferred income tax asset	13	2,322,000	1,730,750
Other assets	15	697,747	797,253
Total assets		**160,402,229**	**141,348,512**
Liabilities			
Amounts due to the National Bank of Ukraine	16	659	2,979,775
Amounts due to credit institutions	17	27,930,729	19,298,870
Amounts due to customers	18	85,788,952	79,317,943
Eurobonds issued	19	37,562,345	33,122,294
Subordinated debt	20	3,495,895	9,375,369
Provisions for other losses	14	5,137	22,213
Other liabilities	15	258,246	292,387
Total liabilities		**155,041,963**	**144,408,851**
Equity			
Share capital	21	31,008,041	21,689,042
Revaluation reserves	21	725,335	664,823
Accumulated deficit		(26,536,036)	(25,577,130)
Reserve and other funds	21	162,926	162,926
Total equity		**5,360,266**	**(3,060,339)**
Total equity and liabilities		**160,402,229**	**141,348,512**

Authorised for release and signed

8 June 2017

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

The notes on pages 6-69 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (CONSOLIDATED INCOME STATEMENT)

For the year ended 31 December 2016

(thousands of Ukrainian hryvnia)

	Notes	2016	2015
Interest income			
Loans to customers		8,107,630	7,333,783
Investment securities other than designated at fair value through profit or loss		4,043,335	4,696,434
Due from credit institutions		273,248	642,360
Amounts due from the National Bank of Ukraine		399,002	247,309
		12,823,215	**12,919,886**
Investment securities designed at fair value through profit or loss		857,196	291,524
		13,680,411	**13,211,410**
Interest expense			
Amounts due to customers		(5,195,463)	(5,218,921)
Eurobonds issued		(3,399,655)	(2,795,722)
Amounts due to the National Bank of Ukraine		(202,840)	(904,487)
Amounts due to credit institutions		(887,024)	(1,013,118)
Subordinated debt		(761,388)	(885,991)
		(10,446,370)	**(10,818,239)**
Net interest income		**3,234,041**	**2,393,171**
Allowance for loan impairment charge	7, 8	(5,700,145)	(10,326,225)
Net interest margin after allowance for loan impairment		**(2,466,104)**	**(7,933,054)**
Commission income		1,003,648	1,102,590
Commission expense		(352,117)	(392,045)
Commission income, net	23	**651,531**	**710,545**
Net gains from investment securities designated at fair value through profit and loss		5,314,500	3,886,182
Net gains/(losses) from available-for-sale investment securities:			
- dealing		–	32,871
- losses on impairment		–	(2,955,590)
Net gains/(losses) from foreign currencies:			
- dealing		507,924	878,047
- translation differences		(3,472,421)	(6,823,654)
Net gains/(losses) from precious metals:			
- dealing		490	9,592
- revaluation		(3,853)	(13,874)
Other income		114,937	105,603
Other non-interest income, net		**2,461,577**	**(4,880,823)**
Personnel expenses	24	(765,616)	(864,949)
Depreciation and amortisation	11, 12	(102,751)	(105,939)
Other operating expenses	24	(841,156)	(965,679)
Loss on initial recognition of financial assets		(7,350)	(18,633)
Other impairment and provisions	14	(122,487)	(11,961)
Non-interest expense		**(1,839,360)**	**(1,967,161)**
Loss before tax		**(1,192,356)**	**(14,070,493)**
Income tax credit	13	215,050	6,721
Loss for the year		**(977,306)**	**(14,063,772)**

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8 June 2017

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(thousands of Ukrainian hryvnia)

	Notes	*2016*	*2015*
Loss for the year		**(977,306)**	**(14,063,772)**
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to the consolidated statement of profit and loss (the consolidated income statement)			
Net gains/(losses) on investment securities available-for-sale	21	78,912	(572,145)
Other comprehensive income/(loss) for the year, net of tax		**78,912**	**(572,145)**
Total comprehensive loss for the year		**(898,394)**	**(14,635,917)**

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Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONSOLIDATED STATEMENT OF EQUITY)

For the year ended 31 December 2016

(thousands of Ukrainian hryvnia)

	Share capital	*Unregistered contributions to share capital*	*Revaluation reserve*	*Accumulated deficit*	*Reserve and other funds*	*Total capital*
As at 1 January 2015	**16,689,042**	**5,000,000**	**1,255,595**	**(11,531,985)**	**162,926**	**11,575,578**
Loss for the year	–	–	–	(14,063,772)	–	(14,063,772)
Other comprehensive loss for the year	–	–	(572,145)	–	–	(572,145)
Total comprehensive loss for the year	**–**	**–**	**(572,145)**	**(14,063,772)**	**–**	**(14,635,917)**
Depreciation of revaluation reserve, net of tax (Note 21)	–	–	(18,627)	18,627	–	–
Increase in share capital (Note 21)	5,000,000	(5,000,000)	–	–	–	–
As at 31 December 2015	**21,689,042**	**–**	**664,823**	**(25,577,130)**	**162,926**	**(3,060,339)**
Loss for the year	–	–	–	(977,306)	–	(977,306)
Other comprehensive income for the year	–	–	78,912	–	–	78,912
Total comprehensive loss for the year	**–**	**–**	**78,912**	**(977,306)**	**–**	**(898,394)**
Depreciation of revaluation reserve, net of tax (Note 21)	–	–	(18,400)	18,400	–	–
Increase in share capital (Note 21)	9,318,999	–	–	–	–	9,318,999
As at 31 December 2016	**31,008,041**	**–**	**725,335**	**(26,536,036)**	**162,926**	**5,360,266**

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8 June 2017

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016
(direct method)

(thousands of Ukrainian hryvnia)

	Notes	*2016*	*2015*
Cash flows from operating activities			
Interest received		11,158,861	11,552,900
Interest paid		(10,457,406)	(10,583,546)
Commissions received		897,256	906,363
Commissions paid		(349,227)	(389,930)
Result from dealing in foreign currencies and precious metals		508,414	887,639
Personnel expenses		(774,687)	(842,730)
Other operating income		95,474	105,334
Other operating and administrative expenses		(716,322)	(497,409)
Cash flow from operating activities before changes in operating assets and liabilities		**362,363**	**1,138,621**
Net (increase)/decrease in operating assets			
Due from credit institutions		2,695,350	(1,580,103)
Loans to customers		(1,444,595)	3,249,513
Other assets		(28,785)	(417,117)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		992,116	(1,590,752)
Amounts due to the National Bank of Ukraine		(2,979,217)	(2,221,039)
Amounts due to customers		(511,698)	(2,207,107)
Other liabilities		52,088	112,608
Net cash flows from operating activities before income tax		**(862,378)**	**(3,515,376)**
Income tax paid		(194,916)	(43,282)
Net cash flows from operating activities		**(1,057,294)**	**(3,558,658)**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		28,848,132	19,015,540
Purchase of investment securities		(30,030,454)	(9,814,312)
Dividends received		24	580
Purchases of property, equipment and intangible assets		(62,498)	(35,275)
Proceeds from sale of property and equipment		238	84
Purchases of investment property		(12,306)	–
Proceeds from sale of investment property		77,467	715
Net cash flows from investing activities		**(1,179,397)**	**9,167,332**
Cash flows from financing activities			
Redemption of subordinated debt		(6,203,838)	–
Proceeds from borrowings from credit institutions		6,878,653	1,021,013
Repayment of borrowings from credit institutions		(2,360,983)	(4,511,602)
Net cash flows from financing activities		**(1,686,168)**	**(3,490,589)**
Effect of exchange rates changes on cash and cash equivalents		1,060,197	5,332,680
Net change in cash and cash equivalents		**(2,862,662)**	**7,450,765**
Cash and cash equivalents, 1 January		**24,241,179**	**16,790,414**
Cash and cash equivalents, 31 December	6	**21,378,517**	**24,241,179**

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8 June 2017

Chairman of the Board O.V. Hrytsenko

Head of Accounting and Reporting Department –
Chief Accountant N.A. Potemska

1. Principal activities

Joint Stock Company “The State Export-Import Bank of Ukraine” (hereinafter – “UkrEximBank” or the “Bank”) was founded in 1992. UkrEximBank operates under banking licence No. 2 dated 5 October 2011 and a general licence to conduct foreign currency transactions No. 2-2 dated 18 November 2016.

As at 31 December 2016 and 2015, 100% of UkrEximBank’s shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

UkrEximBank’s head office is in Kyiv at 127 Antonovycha Str. It has 24 branches and 59 operating outlets (31 December 2015: 27 branches and 75 operating outlets) and 2 representative offices located in London and New-York. UkrEximBank and its branches form a single legal entity.

Traditionally the main focus of UkrEximBank’s operations was the servicing of various export-import transactions. Currently UkrEximBank’s customer base is diversified and includes a number of large industrial and state owned enterprises. UkrEximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and internationally, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the main activities of UkrEximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. UkrEximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The Bank’s aim (in accordance with the Charter) is to create favorable conditions for economic development and support domestic producers, export and import operations, credit and financial support of restructuring processes, strengthening and implementation of industrial and trade potential of industries and manufacturers that are export-oriented or carry out activities related to the production of import-substituting products, and also gains received in the interests of the Bank and its shareholder.

These annual consolidated financial statements comprise UkrEximBank and its subsidiaries (together referred to as the “Bank”). A list of consolidated subsidiaries is as follows:

“Ukreximleasing”, a 100% owned subsidiary was founded in 1997 and registered in Ukraine, and operates in the trading and leasing business.

“Eximleasing” Ltd, a 100% owned subsidiary was founded in 2006 and registered in Ukraine, and operates in the trading and leasing business.

2. Basis of preparation of financial statements

General information

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies, for example investment securities available-for-sale, investment securities designated at fair value through profit or loss, buildings and investment property have been measured at fair value.

These annual consolidated financial statements are presented in thousands of Ukrainian Hryvnia (“UAH”) unless otherwise indicated.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies

Changes in accounting policies

The following amended standards became effective for the Bank from 1 January 2016, but did not have any material impact on the Bank:

- IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- *Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11* (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38* (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- *Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41* (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- *Equity Method in Separate Financial Statements – Amendments to IAS 27* (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- *Disclosure Initiative Amendments to IAS 1* (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- *Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 2*8 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Basis of consolidation

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Bank controls because the Bank (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Bank has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Bank may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Bank assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Bank from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Bank, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Bank measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Bank's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Bank's equity.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are initially recognised, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits itself to purchase an asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets, designated at fair value through profit or loss at inception, are included in the item 'Investment Securities' of the consolidated statement of financial position (the consolidated balance sheet). Derivatives are classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated statement of profit and loss (the consolidated income statement).

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

If the Bank is unable to determine the value of the embedded derivative separately at the acquisition date or at the end of the next financial reporting period, these financial assets are accounted at fair value with changes through profit or loss.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are measured at amortised cost. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and receivables are not entered into with the intention of either immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of profit and loss (the consolidated income statement). However, interest calculated using the effective interest method is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Investments in equity instruments that do not have a quoted market price in an active market and if their fair value cannot be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

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.

The fair value for financial instruments traded in active market at the reporting date is based on publicly available market prices or direct dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading ceases to be held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category into one of the following:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets originally held for trading may be reclassified to available-for-sale or held to maturity categories only in exceptional circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss (consolidated income statement) is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as appropriate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, excluding restricted mandatory reserves, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

Precious metals

Gold and other precious metals are recorded at fair value, which approximate the NBU bid prices and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as revaluation differences from precious metals in the consolidated statement of profit and loss (the consolidated income statement).

Repurchase and reverse repurchase agreements and securities lending

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

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

Promissory notes

Promissory notes purchased are included in available-for-sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments including swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are derived based on quoted market prices or valuation models that take into account current and contractual market prices of the underlying instruments and any other relevant factors. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit and loss (the consolidated income statement) as net gains/(losses) from foreign currencies and precious metals dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, debt securities issued, Eurobonds issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position (the consolidated balance sheet) and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Leases

i. Finance – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is recognised based on a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating – Bank as a lessee

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

iii. Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position (the consolidated balance sheet) according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (‘an incurred loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, an increased probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement). Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated impairment allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the impairment allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of profit and loss (the consolidated income statement).

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

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement).

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated statement of profit and loss (the consolidated income statement).

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as amounts due from credit institutions and loans to customers. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of profit and loss (the consolidated income statement). If, in a subsequent year the fair value of a debt instrument increases and the increase is objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit and loss (the consolidated income statement), the impairment loss is reversed through the consolidated statement of profit and loss (the consolidated income statement).

Renegotiated loans

Where possible, the Bank seeks to renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such renegotiation is as follows:

- If the currency of the loan has been changed the old loan is derecognised and a new loan is recognised.
- If the loan renegotiation is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower, the loan is not recognised as impaired.
- If the loan is impaired after renegotiation, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before renegotiation is included in the impairment charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to be met. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

3. Summary of accounting policies (continued)

Asset management

The Bank acts as an asset manager in respect of certain funds related to construction financing. The Bank acts as an agent in these arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management industry. Accordingly, the Bank does not incur any liability relating to the funds under management. These funds under management do not comprise legal entities under the laws of Ukraine and the management of these funds is administered by the Bank. The funds are held in current accounts in the Bank until such time as they are invested in eligible assets which meet the investment requirements of these funds.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the fee received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortised fee and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit and loss (the consolidated income statement). The premium received is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the life of the guarantee.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Financial guarantees (continued)

Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded in other operating expenses in the consolidated statement of profit and loss (the consolidated income statement).

Property and equipment

Equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

3. Summary of accounting policies (continued)

Property and equipment (continued)

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets’ original cost. Specifically, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The revalued amount of an asset as at the revaluation date equals its fair value and the accumulated depreciation equals zero. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings / (accumulated deficit).

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

	Years
Buildings	15-75 years
Furniture and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (refurbishment costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

The asset’s residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank’s investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property in similar locations and categories.

Assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the prospective sale is deemed feasible.

The prospective sale is deemed feasible if the Bank’s management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan has been initiated. Furthermore, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

3. Summary of accounting policies (continued)

Provision

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other benefit obligations

The Bank has contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under “Personnel expenses”. Unpaid contributions are recorded as a liability. The Bank has no other post-retirement benefits or significant other compensated benefits requiring accrual.

Segment reporting

The Bank’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position (the consolidated balance sheet) but are disclosed unless the possibility of any future outflow is considered remote. A contingent asset is not recognised in the consolidated statement of financial position (the consolidated balance sheet) but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Commission income

The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees arising for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(thousands of Ukrainian hryvnia, unless otherwise stated)

3. Summary of accounting policies (continued)

Recognition of income and expense (continued)

► *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Ukrainian Hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss (the consolidated income statement) as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2016 and 2015 were UAH 27.1909 and UAH 24.0007 to 1 US dollar and UAH 28.4226 and UAH 26.2231 to 1 euro, respectively.

Future changes in accounting policies

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later. The Bank has not adopted early any of these new standards and interpretations .

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings.

The standard is expected to have a significant impact on the Bank's loan impairment provisions. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Bank is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes.The Bank is currently assessing the impact of the amendments on its consolidated financial statements.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.

The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

Transfers of Investment Property - Amendments to IAS 40

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank’s consolidated financial statements.

4. Significant accounting judgements and estimates

In the process of applying the Bank’s accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 1,843,242 thousand and UAH 4,555,081 thousand (2015: UAH 1,449,840 thousand and UAH 4,084,821 thousand), respectively. The Bank increased or decreased by 10% probability of default (PD) for each individual customer and calculated deviation (increase or decrease) of the impairment provision compared to the actual provision in the calculation of the above provision sensitivity to changes in actual loss experience compared to the estimated. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred income tax assets

The recognised deferred tax asset in the amount of UAH 2,322,000 thousand (31 December 2015: UAH 1,730,750 thousand) represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position (consolidated balance sheet). Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a 3-year business plan and forecast for 2020-2021, prepared by management. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the management expectations include stabilisation of the economy of Ukraine together with the recovery of the whole banking sector’s profitability in 2017, as well as moderate growth in loan portfolio and reduced loan loss provisions charges due to the expected improvement in the economy.

(thousands of Ukrainian hryvnia, unless otherwise stated)

4. Significant accounting judgements and estimates (continued)

Deferred income tax assets (continued)

Taking into account planned future profits for 2017-2021 and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

5. Segment information

For management purposes, the Bank recognizes the following operating segments (business units):

Retail banking	Business Unit focussing on servicing retail customers on the full list of products, and selling products that are mainly in standardized form (as per the tariffs approved and the standard procedures) and generally do not require individual approach.
Corporate banking	Business Unit focussing on corporate customers selling products that require individual approach and are mainly offered to corporate clients.
Inter-bank and investments business	Business Unit focussing on the provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.

The Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured taking into account income and expenses from other segments.

Unallocated amounts include:

- Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's TOP management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of TOP management;
- The result of the revaluation of open currency position;
- The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

During the twelve months ended 31 December 2016 and 2015, the Bank had revenues from transactions with a single external customer, that accounted for more than 10% of the total income of the Bank, of UAH 4,346,780 thousand (twelve months of the year 2015: UAH 3,371,185 thousand). Revenue from transactions with the external customer is reflected in the segment "Inter-bank and investments business".

Analysis of income of the Bank by banking products and services is presented in the profit and loss (interest income and expenses) and Note 23 (Fee and commission income and expenses).

Geografical information

Most revenues and capital expenditure relates to Ukraine. The Bank has no significant revenue from other contries. Geographical analysis of assets and liabilities is disclosed in Note 25.

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2016:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	462,408	7,679,379	5,538,624	–	13,680,411
Commission income	496,906	485,902	20,840	–	1,003,648
Other income	19,115	52,543	5,427	21,508	98,593
Net gains from foreign currencies	136,169	171,141	263,249	–	570,559
Net gains from precious metals	525	2	8,362	–	8,889
Net gains from investment securities designated at fair value through profit and loss	–	–	–	5,314,500	5,314,500
Reversal of allowance for loan impairment	67,765	–	–	–	67,765
Reversal of other impairment and provision	–	–	5,190	–	5,190
Gain on initial recognition of financial assets	–	–	16,344	–	16,344
Income from other segments	3,142,645	3,444,592	5,832,165	(12,419,402)	–
Total income	4,325,533	11,833,559	11,690,201	(7,083,394)	20,765,899
Interest expenses	(2,417,930)	(2,778,451)	(5,249,989)	–	(10,446,370)
Commission expense	(161,937)	(174,774)	(15,055)	(351)	(352,117)
Charge to allowance for loan impairment	–	(5,493,557)	(274,353)	–	(5,767,910)
Loss from foreign currencies	–	–	–	(3,535,056)	(3,535,056)
Loss from precious metals	–	–	–	(12,252)	(12,252)
Personnel expenses	(327,929)	(252,625)	(85,348)	(99,714)	(765,616)
Depreciation and amortisation	(57,506)	(29,463)	(7,009)	(8,773)	(102,751)
Other operating expenses	(464,135)	(281,510)	(34,030)	(61,481)	(841,156)
Charge for other impairment and provisions	(5,319)	(118,424)	–	(3,934)	(127,677)
Loss on initial recognition of financial assets	–	–	(7,350)	–	(7,350)
Expenses from other segments	(365,978)	(5,930,676)	(5,266,461)	11,563,115	–
Segment results	524,799	(3,225,921)	750,606	758,160	(1,192,356)
Income tax credit					215,050
Loss for the period					(977,306)
Assets and liabilities as at 31 December 2016					
Segment assets	4,897,657	58,936,051	93,890,451		157,724,159
Unallocated assets				2,678,070	2,678,070
Total assets					160,402,229
Segment liabilities	34,059,319	52,575,312	68,328,691		154,963,322
Unallocated liabilities				78,641	78,641
Total liabilities					155,041,963
Other segment information					
Capital expenditure	(35,403)	(16,382)	(3,901)	(4,883)	(60,569)

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2015:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	393,057	6,971,386	5,846,967	–	13,211,410
Commission income	424,391	658,165	20,034	–	1,102,590
Other income	19,083	54,260	20,971	11,289	105,603
Net gains from foreign currencies	237,507	172,539	652,525	–	1,062,571
Net gains from precious metals	458	–	8,849	–	9,307
Net gains from available-for-sale investment securities	–	–	32,871	–	32,871
Net gains from investment securities designated at fair value through profit and loss	–	–	–	3,886,182	3,886,182
Reversal of allowance for loan impairments	–	–	400,401	–	400,401
Reversal of other impairment and provisions	–	94,029	435,055	–	529,084
Income from other segments	3,386,431	3,166,995	6,126,478	(12,679,904)	–
Total income	4,460,927	11,117,374	13,544,151	(8,782,433)	20,340,019
Interest expenses	(2,681,316)	(2,531,140)	(5,605,783)	–	(10,818,239)
Commission expense	(120,668)	(260,753)	(10,573)	(51)	(392,045)
Loan impairment charge	(221,803)	(10,504,823)	–	–	(10,726,626)
Loss from foreign currencies	–	–	–	(7,008,178)	(7,008,178)
Loss from precious metals	–	–	–	(13,589)	(13,589)
Personnel expenses	(412,835)	(260,327)	(79,038)	(112,749)	(864,949)
Depreciation and amortisation	(69,431)	(25,447)	(4,355)	(6,706)	(105,939)
Other operating expenses	(359,124)	(456,452)	(35,162)	(114,941)	(965,679)
Loss from available-for-sale investment securities	–	(852,822)	(2,102,768)	–	(2,955,590)
Charge for other impairment and provisions	(29,504)	–	–	(511,541)	(541,045)
Loss on initial recognition of financial assets	–	(18,484)	(149)	–	(18,633)
Expenses from other segments	(328,477)	(7,469,872)	(6,062,729)	13,861,078	–
Segment results	237,769	(11,262,746)	(356,406)	(2,689,110)	(14,070,493)
Income tax credit					6,721
Loss for the period					(14,063,772)
Assets and liabilities as at 31 December 2016					
Segment assets	4,746,994	56,142,419	78,222,914		139,112,327
Unallocated assets				2,236,185	2,236,185
Total assets					141,348,512
Segment liabilities	32,198,018	47,560,991	64,580,236		144,339,245
Unallocated liabilities				69,606	69,606
Total liabilities					144,408,851
Other segment information					
Capital expenditure	(28,582)	(8,220)	(1,470)	(2,264)	(40,536)

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information (continued)

The major part of the fair value gain from investment securities designated at fair value through profit or loss for twelve months of 2016 and 2015 is attributable to revaluation of government bonds indexed according to changes in the foreign exchange rate.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2016	*31 December 2015*
Current accounts with other credit institutions	8,884,608	9,593,295
Current account with the National Bank of Ukraine	5,372,785	2,184,195
Deposits certificates of the National Bank of Ukraine up to 90 days	4,006,865	6,255,946
Overnight deposits with other credit institutions	1,894,306	4,265,831
Cash on hand	1,219,953	1,109,948
Time deposits with credit institutions up to 90 days	–	831,964
Cash and cash equivalents	21,378,517	24,241,179

As at 31 December 2016 included in current accounts with other credit institutions is UAH 7,793,665 thousand, placed on current accounts with five OECD banks (31 December 2015: UAH 8,863,054 thousand, placed on current accounts with five OECD banks). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

As at 31 December 2016 overnight deposit in amount of UAH 1,894,306 thousand was placed with one OECD bank under market interest rate (31 December 2015: UAH 4,265,831 thousand was placed with one OECD bank).
Ukrainian banks are required to keep mandatory reserves on a correspondent account with the National Bank Ukraine. Since January 2015, the amount of mandatory reserves that should be kept at the beginning of each operational day on a correspondent account with the National Bank of Ukraine should be no less than 40% of the reserve base (representing the average arithmetic sum of funds calculated for the period of determination in accordance with the mandatory reserve requirements for that period) that is calculated for the relevant period of allowance.

As at 31 December 2016 and 2015 the Bank meets all the NBU's mandatory reserve requirements.

Financing and investing transactions for the year ended 31 December 2016 that did not require the use of cash and cash equivalents, comprised of issuance of ordinary shares in exchange of government investment securities of UAH 9,318 ,999 thousand , were excluded from the consolidated statement of cash flows.

(thousands of Ukrainian hryvnia, unless otherwise stated)

7. Due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2016	*31 December 2015*
Loans and deposits	2,268,771	4,525,511
Current accounts with other credit institutions in precious metals	121,567	106,968
Other amounts due from credit institutions	3	10
	2,390,341	4,632,489
Less – allowance for impairment	(845,865)	(548,746)
Due from credit institutions	1,544,476	4,083,743

As at 31 December 2016, loans and deposits due from credit institutions include UAH 562,063 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (31 December 2015: UAH 229,419 thousand).

The movements in allowance for impairment of amounts due from credit institutions are as follows:

	Loans and deposits
At 1 January 2015	118,983
Charge	415,941
Translation differences	13,822
At 31 December 2015	548,746
Charge	272,888
Translation differences	24,231
At 31 December 2016	845,865

8. Loans to customers

Loans to customers comprise:

	31 December 2016	*31 December 2015*
Commercial loans	103,403,198	95,509,668
Overdrafts	456,206	273,354
Financial lease receivables	94,664	143,547
Promissory notes	66,270	21,545
	104,020,338	95,948,114
Less– allowance for impairment	(45,550,807)	(40,848,211)
Loans to customers	58,469,531	55,099,903

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2016	40,806,110	23,916	17,736	449	40,848,211
Charge/(reversal) for the year	5,419,068	8,004	(672)	857	5,427,257
Recoveries	122,067	–	–	–	122,067
Amounts written-off	(4,716,434)	–	(11,929)	–	(4,728,363)
Translation differences	3,881,635	–	–	–	3,881,635
At 31 December 2016	45,512,446	31,920	5,135	1,306	45,550,807
Individual impairment	43,921,740	18,807	5,135	–	43,945,682
Collective impairment	1,590,706	13,113	–	1,306	1,605,125
	45,512,446	31,920	5,135	1,306	45,550,807
Gross amount of loans, individually determined to be impaired, before deducting any impairment allowance	65,238,467	132,036	5,135	–	65,375,638

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2015	23,164,123	5,444	17,238	304	23,187,109
Charge/(reversal) for the year	9,891,540	18,101	498	145	9,910,284
Recoveries	5,475	–	–	–	5,475
Amounts written-off	(9,739)	–	–	–	(9,739)
Translation differences	7,754,711	371	–	–	7,755,082
At 31 December 2015	40,806,110	23,916	17,736	449	40,848,211
Individual impairment	38,802,056	4,237	17,736	–	38,824,029
Collective impairment	2,004,054	19,679	–	449	2,024,182
	40,806,110	23,916	17,736	449	40,848,211
Gross amount of loans, individually determined to be impaired, before deducting any impairment allowance	57,213,119	20,558	27,147	–	57,260,824

Individually impaired loans

As at 31 December 2016 interest income on loans, for which individual impairment has been recognised, amounts to UAH 5,766,545 thousand (2015: UAH 3,481,235 thousand).

In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions – cash or securities;
- For commercial lending – charges over real estate properties, inventory and trade receivables;
- For retail lending – mortgages over residential properties and vehicles.

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2015, loans to customers with a carrying value of UAH 5,088,445 thousand are pledged as collateral under loans received from the NBU (Note 16).

As at 31 December 2016, UAH 445,349 of customers deposts are pledged as collateral for loans to customers (31 December 2015: UAH 912,330 thousand) (Note 18).

Concentration of loans to customers

As at 31 December 2016, the Bank has a concentration of loans represented by UAH 46,472,276 thousand due from the ten largest borrowers (44.68% of gross loan portfolio) (31 December 2015: UAH 39,944,601 thousand or 41.63%). An allowance of UAH 19,694,698 thousand has been recognised against these loans (31 December 2015: UAH 15,330,275 thousand).

Loans and advances have been extended to the following types of customers:

	31 December 2016	*31 December 2015*
Private entities	82,390,783	76,228,940
State entities	20,039,806	18,158,597
Individuals	1,333,388	1,303,048
Municipal and utility entities	256,361	257,529
	104,020,338	95,948,114

Loans are made principally within Ukraine to companies of the following industry sectors:

	31 December 2016	*%*	*31 December 2015*	*%*
Agriculture and food industry	18,717,772	18.0	16,779,746	17.5
Extractive industry	12,316,626	11.8	10,984,005	11.4
Trade	11,744,970	11.3	11,303,278	11.8
Chemical industry	9,737,760	9.4	8,827,769	9.2
Real estate	8,699,429	8.4	8,846,650	9.2
Mechanical engineering	7,665,099	7.4	6,475,345	6.7
Metallurgy	6,203,129	6.0	5,561,073	5.8
Construction	6,126,703	5.9	4,771,851	5.0
Power engineering	5,251,422	5.0	2,614,353	2.7
Production of construction materials	4,338,374	4.2	3,973,268	4.1
Hotels and restaurant	4,337,384	4.2	3,596,452	3.7
Production of rubber and plastic goods	2,623,755	2.5	4,361,864	4.5
Transport and communications	2,032,035	1.9	1,911,787	2.0
Individuals	1,333,388	1.3	1,303,048	1.4
Pulp and paper industry	904,725	0.9	1,033,578	1.1
Finance	418,232	0.4	453,280	0.5
Wood processing	252,426	0.2	220,159	0.2
Health protection	245,410	0.2	239,892	0.3
Professional, scientific and technical activity	191,894	0.2	171,104	0.2
Light industry	185,233	0.2	493,310	0.5
Metal processing	154,732	0.1	158,885	0.2
Road construction	–	–	1,053,974	1.1
Other	539,840	0.5	813,443	0.9
	104,020,338	100	95,948,114	100

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2016, "Other" category included loans issued to customers, which are registered in the free economic zone of the Crimea in amount of UAH 267,477 thousand (31 December 2015: UAH 269,260 thousand) with UAH 267,477 thousand of allowance for impairment provided for these loans (31 December 2015: UAH 260,217 thousand).

Finance lease receivables are included in the corporate lending portfolio . They may be analysed as follows:

	2016	*2015*
Gross investment in finance leases, receivable:		
Less than 1 year	61,286	84,653
From 1 to 5 years	63,669	118,371
	124,955	203,024
Unearned future finance income on finance leases	(30,291)	(59,477)
Net investment in finance leases	94,664	143,547

	2016	*2015*
Net investment in finance leases, receivable:		
Less than 1 year	42,497	56,470
From 1 to 5 years	52,167	87,077
Net investment in finance leases	94,664	143,547

9. Investment securities

As at 31 December 2016 and 2015, investment securities designated at fair value through profit and loss represented Ukrainian state bonds, principal of which will be indexed according to increases in the average interbank exchange rate of Hryvnia to United States dollar per month, prior to the month of issue, and the average exchange rate of Hryvnia to United States dollar per month, prior to maturity month. The Bank decided not to separate an embedded derivative instrument and to evaluate an instrument as a whole at its fair value, recognising revaluation through profit or loss.

Available-for-sale investment securities comprise:

	31 December 2016	*31 December 2015*
Ukrainian state bonds	46,163,120	37,163,276
Corporate bonds	2,018,739	2,388,565
Corporate shares	11,690	11,690
Municipal entities	–	1,628,039
Available-for-sale investments	48,193,549	41,191,570

As at 31 December 2015, available-for-sale investment securities with a carrying value of UAH 3,620,028 thousand are pledged as collateral under loans received from the NBU (Note 16).

Held-to-maturity investment securities comprise the following:

	31 December 2016		*31 December 2015*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Ukrainian state bonds	147,246	139,098	248,483	230,912
Held-to-maturity investments		139,098		230,912

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Investment property

The movements of investment property are as follows:

	2016	*2015*
Investment property as at 1 January	1,566,942	1,986,087
Additions	12,306	–
Transfer from owner occupied property	–	3,794
Transfer to owner occupied property	(13)	–
Disposals	(74,551)	(530)
Net loss from fair value remeasurement	(160,610)	(422,409)
Investment property as at 31 December	1,344,074	1,566,942

In 2016, the Bank sold an investment property item with a gain of UAH 2,916 thousand (2015: UAH 185 thousand).

In 2016 the Bank revalued its investment property. The valuation was performed by internal appraiser specialist who has appropriate professional qualifications and years of experience in valuation of similar properties in Ukraine. The valuation basic approach applied was the comparative approach, which based on the analysis of information on sale prices (offerings) for similar assets, which authenticity is not in doubt by the appraiser, as adjusted for specific characteristics for a property being valued. The key characteristics of similar assets are location, physical and functional characteristics, sale conditions and others. The following assumptions were applied:

- A supply and demand assumption, reflecting the correlation of supply and demand for similar assets. Under this assumption, fluctuations in market prices for similar assets are considered in valuation.
- A substitution assumption, reflecting that an asset is not to be paid at a greater price than the minimum price of a property of similar economic value currently being sold at the market.

In 2016, the Bank recognised the result from fair value remeasurement of investment property in the amount of UAH 160,610 thousand in other operating expenses (2015: UAH 422,409 thousand).

The Bank leased out a portion of its investment property under operating lease agreements. Future minimum receivables under non-cancellable operating leases comprise the following:

	31 December 2016	*31 December 2015*
Less than 1 year	19,384	19,712
From 1 to 5 years	8,205	17,951
Future minimum receivables under non-cancellable operating lease	27,589	37,663

During 2016 the Bank has recognised rental income of UAH 31,082 thousand (2015: UAH 34,305 thousand), included in other income in the consolidated statement of profit and loss (the consolidated income statement).

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construc-tion in progress*	*Total*
Cost or revalued amount							
At 31 December 2015	1,876,746	12,277	425,130	226,578	28,831	132,580	2,702,142
Additions	56	–	29,081	9,083	–	8,475	46,695
Disposals	–	(3,392)	(4,522)	(2,672)	(7,983)	(90)	(18,659)
Transfer from investment property	–	–	–	13	–	–	13
Transfers	1,816	125	–	–	–	(1,941)	–
At 31 December 2016	1,878,618	9,010	449,689	233,002	20,848	139,024	2,730,191
Accumulated depreciation							
At 31 December 2015	(31,491)	(10,854)	(312,677)	(152,631)	(23,545)	–	(531,198)
Charge for the year	(31,277)	(885)	(40,552)	(20,545)	(2,883)	–	(96,142)
Disposals	–	3,392	4,522	2,628	7,279	–	17,821
At 31 December 2016	(62,768)	(8,347)	(348,707)	(170,548)	(19,149)	–	(609,519)
Net book value							
At 31 December 2015	1,845,255	1,423	112,453	73,947	5,286	132,580	2,170,944
At 31 December 2016	1,815,850	663	100,982	62,454	1,699	139,024	2,120,672

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construc-tion in progress*	*Total*
Cost or revalued amount							
At 31 December 2014	1,873,417	12,314	420,141	212,790	28,831	138,088	2,685,581
Additions	–	–	8,597	14,911	–	2,443	25,951
Disposals	(20)	(690)	(3,608)	(1,123)	–	(155)	(5,596)
Transfer to investment property	–	–	–	–	–	(3,794)	(3,794)
Transfers	3,349	653	–	–	–	(4,002)	–
At 31 December 2015	1,876,746	12,277	425,130	226,578	28,831	132,580	2,702,142
Accumulated depreciation							
At 31 December 2014	–	(9,939)	(268,275)	(135,918)	(19,806)	–	(433,938)
Charge for the year	(31,511)	(1,591)	(45,823)	(17,456)	(3,739)	–	(100,120)
Disposals	20	676	1,421	743	–	–	2,860
At 31 December 2015	(31,491)	(10,854)	(312,677)	(152,631)	(23,545)	–	(531,198)
Net book value							
At 31 December 2014	1,873,417	2,375	151,866	76,872	9,025	138,088	2,251,643
At 31 December 2015	1,845,255	1,423	112,453	73,947	5,286	132,580	2,170,944

As at 31 December 2016, buildings, leasehold improvements and other items of property, plant and equipment include assets with a cost or revalued amount of UAH 311,648 thousand which are fully depreciated (31 December 2015: UAH 276,792 thousand). These assets are still used by the Bank.

As at 31 December 2016, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 5,970 thousand (31 December 2015: UAH 6,108 thousand).

As at 1 March and 1 August of each year the Bank performs testing of fair value of buildings. On the basis of such testing the deviation between fair value of buildings and their carrying value is calculated. The amount of the calculated deviations reviewed for the significance of the impact on the financial statements of the Bank.

As at 1 March 2016 and 1 August 2016, as a result of the Bank’s fair value testing of the buildings no significant deviations from their carrying value of such items were found.

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Property and equipment (continued)

In 2014, the Bank revalued its buildings. Revaluation was performed by independent appraisers as at 31 December 2016 and fair value was determined by comparative, income and expense methods taking into account market information.

If the buildings were reported at cost, the carrying value would be as follows:

	31 December 2016 (revalued)	*31 December 2016 (at cost)*	*31 December 2015 (revalued)*	*31 December 2015 (at cost)*
Cost	1,878,618	1,039,055	1,876,746	1,037,183
Accumulated depreciation	(62,768)	(164,996)	(31,491)	(152,119)
Residual value	1,815,850	874,059	1,845,255	885,064

12. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2015	64,785
Additions	15,803
Disposals	(360)
At 31 December 2016	80,228
Accumulated depreciation	
At 31 December 2015	(47,201)
Charge for the year	(6,609)
Disposals	360
At 31 December 2016	(53,450)
Net book value	
At 31 December 2015	17,584
At 31 December 2016	26,778

	Computer software and licences
Cost	
At 31 December 2014	60,229
Additions	9,324
Disposals	(4,768)
At 31 December 2015	64,785
Accumulated depreciation	
At 31 December 2014	(46,151)
Charge for the year	(5,819)
Disposals	4,769
At 31 December 2015	(47,201)
Net book value	
At 31 December 2014	14,078
At 31 December 2015	17,584

(thousands of Ukrainian hryvnia, unless otherwise stated)

12. Intangible assets (continued)

As at 31 December 2016, intangible assets include assets with a cost of UAH 39,923 thousand which have been fully amortised (31 December 2015: UAH 33,200 thousand). These assets are still used by the Bank.

As at 31 December 2016, the Bank had capital commitments for the acquisition of intangible assets of UAH 10,569 thousand (31 December 2015: UAH 13,951 thousand).

13. Income tax

The corporate income tax charge comprises:

	2016	*2015*
Current tax charge	(376,200)	(416,750)
Deferred tax credit	591,250	423,471
Income tax credit	215,050	6,721

As at 31 December 2016, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 18% (31 December 2015: 18%).

Income tax assets and liabilities consist of the following:

	31 December 2016	*31 December 2015*
Current tax assets	101,677	293,122
Deferred income tax assets	2,322,000	1,730,750
Income tax assets	2,423,677	2,023,872

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	2016	*2015*
Loss before tax	1,192,356	14,070,493
Statutory tax rate	18%	18%
Income tax credit at the statutory rate	214,624	2,532,689
Changes in unrecognised deferred tax asset	34,110	(331,652)
Non-deductible expenditures	(33,684)	(94,381)
Revision of temporary difference due to the changes in tax laws	–	(2,099,935)
Income tax credit	215,050	6,721

(thousands of Ukrainian hryvnia, unless otherwise stated)

13. Income tax (continued)

Deferred tax assets and liabilities include:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	1 January 2015	*In the consolidated statement of profit and loss (in the consolidated income statement)*	*In the consolidated statement of compre-hensive income*	*31 December 2015*	*In the consolidated statement of profit and loss (in the consolidated income statement)*	*In the consolidated statement of compre-hensive income*	*31 December 2016*
Tax effect of deductible temporary differences:							
Allowance for impairment of assets and liabilities	1,400,518	1,463,259	–	2,863,777	(162,846)	–	2,700,931
Accruals	173	(173)	–	–	–	–	–
Valuation of financial instruments	683,779	(704,823)	101,042	79,998	(1)	(12,260)	67,737
Accrued interest on the debt (financial liabilities)	–	–	–	–	717,822	–	717,822
Other assets	–	2,257	–	2,257	1,077	–	3,334
Deferred income tax asset	2,084,470	760,520	101,042	2,946,032	556,052	(12,260)	3,489,824
Tax effect of taxable temporary differences:							
Property, equipment and intangible assets	(56,165)	(9,405)	–	(65,570)	1,088	–	(64,482)
Other assets/liabilities	(4,008)	4,008	–	–	–	–	–
Deferred tax liabilities	(60,173)	(5,397)	–	(65,570)	1,088	–	(64,482)
Unrecognised deferred tax asset	(717,018)	(331,652)	(101,042)	(1,149,712)	34,110	12,260	(1,103,342)
Net deferred tax assets	1,307,279	423,471	–	1,730,750	591,250	–	2,322,000

The Bank does not recognise deferred tax asset in the full amount and created respective provision for deferred tax asset as at 31 December 2016. For the information on the professional judgements of the management applied to the recognition of deferred tax assets refer to Note 4.

14. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Other assets	*Guarantees and commitments*	*Total*
At 1 January 2015	230,695	400	231,095
Charge/(reversal)	20,812	(8,851)	11,961
Translation differences	4,898	30,664	35,562
Amounts written-off	(1,101)	–	(1,101)
At 31 December 2015	255,304	22,213	277,517
Charge/(reversal)	140,550	(18,063)	122,487
Translation differences	4,604	987	5,591
Amounts written-off	(50)	–	(50)
At 31 December 2016	400,408	5,137	405,545

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

15. Other assets and liabilities

Other assets comprise:

	31 December 2016	*31 December 2015*
Other financial assets		
Other accrued income	328,429	29,106
Receivables on transactions with customers	211,404	210,074
Transit accounts in respect of card operations	138,880	163,371
Service fee on financial guarantees issued	10,208	202,107
Other	120	-
	689,041	604,658
Less: allowance for impairment (Note 14)	(333,326)	(200,476)
Other financial assets	355,715	404,182
Other assets		
Tax assets, other than income tax	259,989	277,925
Prepayments	50,025	53,087
Precious metals	42,477	62,587
Cash and cash equivalents, which existence is not confirmed	33,913	30,740
Inventories	21,127	21,425
Other	1,583	2,135
	409,114	447,899
Less: allowance for impairment (Note 14)	(67,082)	(54,828)
Other assets	342,032	393,071
Total other assets	697,747	797,253

As at 31 December 2016, prepayments include balances of UAH 7,344 thousand (31 December 2015: UAH 8,648 thousand) in respect of the acquisition of property, equipment and intangible assets, and balances of UAH 4,333 thousand (31 December 2015: UAH 4,775 thousand) in respect of the construction of branch premises.

Other liabilities comprise:

	31 December 2016	*31 December 2015*
Other financial liabilities		
Transit accounts in respect of card operations	26,480	30,963
Liabilities in respect of financial guarantees issued	7,043	5,895
Transit accounts on transactions with customers	6,685	6,688
Accrued expenses	6,645	42,735
Other financial liabilities	46,853	86,281
Other liabilities		
Provision for unused vacation	61,161	68,476
Payables to Guarantee Fund of Individuals' Deposits	54,046	52,875
Taxes payable other than income tax	32,804	44,116
Deferred income	26,675	12,922
Accrued salary payable	22,693	24,504
Accounts payable	9,106	2,228
Accrued pension contribution	885	830
Other	4,023	155
Other liabilities	211,393	206,106
Total other liabilities	258,246	292,387

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Amounts due to the National Bank of Ukraine

Amounts due to the National Bank of Ukraine as at 31 December 2016 comprise:

	31 December 2016	*31 December 2015*
Correspondent account	659	1,948
Loans due to the National Bank of Ukraine	–	2,977,827
Amounts due to the National Bank of Ukraine	659	2,979,775

In July 2016 "UkrEximBank" early repaid the full amount of loans due to the National Bank of Ukraine with maturity date in June 2020.

As at 31 December 2015, loans due to the National Bank of Ukraine comprised:

Origination date	*Maturity date*	*Type of interest rate*	*Effective interest rate*	*Carrying value*
19 March 2009	10 June 2020	Fixed rate	20%	1,233,266
19 March 2009	10 June 2020	Fixed rate	20%	1,744,561
Amounts due to the National Bank of Ukraine				2,977,827

These loans are initially recognised at fair value, which was based on the market data at the date of recognition.

Loans due to the NBU are secured with loans to customers (Note 8) and investment securities (Note 9).

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2016	*31 December 2015*
Loans due to international financial organisations	21,878,151	14,045,679
Loans and deposits due to other banks	3,506,844	4,100,747
Current accounts	2,545,460	1,152,421
Other amounts due to credit institutions	274	23
Amounts due to credit institutions	27,930,729	19,298,870
Held as security against guarantees (Note 22)	24,528	29,705

As at 31 December 2016, included in current accounts is UAH 1,626,852 thousand received from five Ukrainian banks (31 December 2015: UAH 539,387 thousand received from five Ukrainian banks). The amount was received under normal banking terms and conditions.

As at 31 December 2016, included in amounts due to credit institutions is UAH 2,661,207 thousand received from Ukrainian banks (31 December 2015: UAH 1,390,022 thousand).

As at 31 December 2016, loans and deposits due to other banks and loans due to international financial organisations include UAH 619,938 thousand and UAH 55,457 thousand received from OECD banks and international financial organisations, respectively, under the trade and export financing agreements (31 December 2015: UAH 1,046,260 thousand and UAH 569,333 thousand respectively). These loans are denominated in US dollars and euros and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the respective trade and export financing programmes.

(thousands of Ukrainian hryvnia, unless otherwise stated)

17. Amounts due to credit institutions (continued)

As at 31 December 2016 international financial institutions loans include loans from the International Bank for Reconstruction and Development (IBRD) within the Second Project of Export Development and Additional Financing for the Second Project of Export Development totalling UAH 6,090,065 thousand (31 December 2015: UAH 5,437,942 thousand). The total amount of these loans under the loan agreements is USD 304,500 thousand. These loans are denominated in US dollars received by the Bank with interest rate of LIBOR + spread IBRD, which is reviewed twice a year, and have a current interest rate: 1.66% and 1.87%, maturing in 2026 and 2041 respectively.

Loans from international financial institutions also include loans from the IBRD for the Project on Energy Efficiency in the amount of UAH 4,454,935 thousand (31 December 2015: UAH 2,473,662 thousand). The total amount of this loan under the loan agreement is USD 200,000 thousand. The loan is denominated in US dollars with an interest rate of LIBOR + spread IBRD, which is reviewed twice a year, with the current interest rate: 1.87%, the loan matures in 2040.

International financial institutions loans include loans from the European Bank for Reconstruction and Development ("EBRD") within the Energy Efficiency Programs in Ukraine totalling UAH 456,627 thousand (31 December 2015: UAH 807,971 thousand). These loans are denominated in US dollars and maturing in 2017, have floating interest rates LIBOR + spread EBRD, which is reviewed twice a year, with the current interest rate 7.55378%.

Loans from international financial institutions also include loans from the European Investment Bank ("EIB") within the "UkrEximBank" Loan for SMEs and Mid-Caps totalling UAH 3,730,995 thousand (31 December 2015: UAH 3,289,579 thousand). The total amount of these loans under the loan agreement is equivalent of EUR 100,000 thousand. These loans are denominated in US dollars and maturing in 2023, have floating interest rates for each tranche: LIBOR + spread EIB, which is reviewed twice a year, with the current interest rate: 4.76822% and 4.836% respectively.

For the purposes of the cash flow statement presentation, the Bank allocates funds, attracted from credit institutions, between the funds for the operating and financing activities. Funds raised from the Ukrainian banks are included in the category of funds for operating activities, and funds from other banks for financing activities.

Loans due to international financial organisations and certain loans due to other banks are subject to various covenants and restrictions (Note 22).

18. Amounts due to customers

Amounts due to customers comprise:

	31 December 2016	*31 December 2015*
Current accounts		
- Legal entities	17,638,612	13,526,606
- Budget financed organisations	4,424,952	4,699,932
- Individuals	3,516,537	3,002,802
- Funds under the Bank's management	8,077	13,718
	25,588,178	21,243,058
Time deposits		
- Legal entities	39,218,415	36,643,285
- Individuals	20,982,359	21,431,600
	60,200,774	58,074,885
Amounts due to customers	85,788,952	79,317,943
Held as security against letters of credit (Note 22)	979,840	444,464
Held as security against guarantees and avals (Note 22)	446,921	535,733
Held as security against loans to customers (Note 8)	445,349	912,330
Held as security against undrawn loan commitments (Note 22)	1,805	1,978

As at 31 December 2016, legal entities current accounts included funds of top ten customers in the amount of UAH 5,040,774 thousand (28.6% of legal entities current accounts) (31 December 2015: UAH 3,470,838 thousand, or 25.7%).

(thousands of Ukrainian hryvnia, unless otherwise stated)

18. Amounts due to customers (continued)

As at 31 December 2016, individuals' current accounts included funds of top ten customers in the amount of UAH 82,185 thousand (2.3% of individuals' current accounts) (31 December 2015: UAH 77,529 thousand, or 2.6%).

As at 31 December 2016, term deposits of legal entities included funds raised from five customers – legal entities in the amount of UAH 28,550,148 thousand (72.8% of term deposits of legal entities) (31 December 2015: UAH 27,045,620 thousand, or 73.8%).

As at 31 December 2016, term deposits of individuals included funds raised from ten individuals in the amount of UAH 1,312,666 thousand (6.3% of term deposits of individuals) (31 December 2015: UAH 1,523,604 thousand, or 7.1%).

As at 31 December 2016, term deposits of legal entities included funds raised in gold, which are accounted for at fair value through profit or loss in the amount to UAH 13,624 thousand (31 December 2015: UAH 15,322 thousand).

As at 31 December 2016, term deposits of individuals included funds raised in gold, which are accounted at fair value through profit or loss in the amount to UAH 82,181 thousand (31 December 2015: UAH 142,425 thousand).

In accordance with Ukrainian legislation, the Bank is obliged to return time deposit to individuals on their request only on maturity date prescribed in the deposit agreement. Return of time deposit on customer request until the date of maturity or other events stated in the agreement could be done only in the sole event if it is under conditions stipulated by such agreement.

An analysis of customer accounts by economic sector is as follows:

	31 December 2016	*%*	*31 December 2015*	*%*
Agriculture and food industry	29,167,421	34.0	27,263,219	34.4
Individuals	24,498,896	28.6	24,434,402	30.8
Trade	7,018,218	8.2	6,234,324	7.9
Budget organizations	4,424,952	5.2	4,699,932	5.9
Mechanical engineering	3,364,349	3.9	1,896,796	2.4
Transport and communications	2,558,458	3.0	2,086,555	2.6
Professional, scientific and technical activities	2,344,970	2.7	2,003,401	2.5
Finance	2,161,779	2.5	1,820,697	2.3
Construction	1,254,642	1.5	1,259,118	1.6
Chemical industry	901,909	1.1	421,939	0.5
Metal processing	849,841	1.0	446,645	0.6
Information and telecommunications	759,109	0.9	779,643	1.0
Production of construction materials	750,354	0.9	219,211	0.3
Power engineering	728,272	0.7	1,130,043	1.4
Real estate	564,285	0.7	365,163	0.5
Metallurgy	444,476	0.5	122,606	0.2
Extractive industry	394,394	0.5	527,598	0.7
Processing	306,911	0.4	344,104	0.4
Health protection	302,412	0.3	160,222	0.2
Wood processing	204,238	0.2	251,457	0.3
Education	187,823	0.2	99,314	0.1
Personal services	180,711	0.2	154,244	0.2
Production of rubber and plastic goods	85,669	0.1	313,646	0.4
Pulp and paper industry	83,619	0.1	92,645	0.1
Light industry	75,063	0.1	94,774	0.1
Hotels and restaurants	51,821	0.1	99,974	0.1
Other	2,124,360	2.4	1,996,271	2.5
Amounts due to customers	85,788,952	100	79,317,943	100

(thousands of Ukrainian hryvnia, unless otherwise stated)

18. Amounts due to customers (continued)

Funds under the Bank's management

The Bank acts as an asset manager in respect of certain funds related to construction financing. Amounts due to funds under the Bank's management are as follows:

	2016	*2015*
At 1 January	13,718	17,055
Funds attracted from individuals	50,547	52,889
Invested funds	(56,188)	(56,226)
At 31 December	8,077	13,718

19. Eurobonds issued

	31 December 2016		*31 December 2015*	
	Nominal value (thousand of USD)	*Carrying value*	*Nominal value (thousand of USD)*	*Carrying value*
April 2010 issue	500,000	13,786,149	500,000	12,158,478
October 2010 issue	250,000	6,893,074	250,000	6,079,239
January 2013 issue	500,000	14,069,268	500,000	12,403,814
April 2013 issue	100,000	2,813,854	100,000	2,480,763
Eurobonds issued		37,562,345		33,122,294

In April 2010, the Bank, through BIZ Finance PLC (consolidated structured company registered in the United Kingdom), issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,998,250 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

Issued Eurobonds in the form of loan participation notes with a par value of USD 750,000 thousand and maturity in 2015 were reprofiled on 20 July 2015 on the following conditions:

- the coupon rate of 9.625% p.a.;
- maturity date was rescheduled to 27 April 2022 with 50% of the principle amount payable on 27 April 2019 and the remaining part of the principle amount payable six equal semi-annual payments, starting on 27 October 2019, and to 27 April 2022.

As the change of terms did not result in derecognition of existing debt, after amending the terms of these Eurobonds the Bank continued to recognise these liabilities at amortised cost using new recalculated effective interest rate.

In January 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in January 2018.

In April 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in January 2018. These bonds were consolidated and comprise a single seria with the bonds issued in January 2013.

19. Eurobonds issued (continued)

Issued Eurobonds in the form of loan participation notes with a par value of USD 600,000 thousand and maturity in 2018 were reprofiled on 23 July 2015 on the following conditions:

- the coupon rate of 9.75% p.a.;
- maturity date was rescheduled to 22 January 2025 with 50% of the principal amount payable on 22 January 2021 and the remaining part of the principal amount payable in eight equal semi-annual payments, starting on 22 July 2021, and to 22 January 2025.

As the change of terms did not result in derecognition of existing debt, after amending the terms of these Eurobonds the Bank continued to recognise these liabilities at amortised cost using new recalculated effective interest rate.

All Eurobonds issued are subject to various covenants and restrictions (Note 22).

20. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 2,583,132 thousand) from Credit Suisse International. Carrying value of the loan was UAH 2,656,880 thousand as at 31 December 2016 (2015: UAH 2,338,461 thousand). This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. The loan matures in February 2016. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 815,726 thousand) from Credit Suisse International. Carrying value of the loan was UAH 839 015 thousand as at 31 December 2016 (2015: UAH 738,461 thousand). This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

On 29 May 2015 the Bank as a borrower, the Credit Suisse International as a creditor and Biz Finance Plc as a new creditor signed the second supplementary loan agreement under the terms of which Credit Suisse International was replaced by Biz Finance Plc.

On 9 July 2015 the Bank and Biz Finance Plc signed the Agreement on amendments and revisions to the loan agreement (the Agreement on funds borrowing under subordinated debt terms) of USD 125,000 thousand dated 7 February 2006 as amended by the second supplementary loan agreement dated 29 May 2015, as follows:

- starting from 9 August 2015 the interest rate was changed to 7% p.a. + 6-months Libor rate (8.16070% as at 31 December 2016);
- maturity date was rescheduled to 9 February 2023 with 50% of the loan payable on 9 February 2020 and the remaining part of the loan payable in six equal semi-annual payments, starting on 9 August 2020, and to 9 February 2023.

In May 2009, the Bank obtained a loan amounting to USD 250,000 thousand from the EBRD. The carrying value of the loan was UAH 6,298,447 thousand as at 31 December 2015. The loan should have been matured in May 2019. Interest rate was fixed for the first five years and comprised 13.21% per annum. Starting from 28 July 2014 and for the next five years the interest rate was set as floating per agreement terms and comprised 12% + 6-month LIBOR. On 29 July 2016 the EBRD and the Bank completed a conversion of this subordinated debt into a loan of USD 200 000 thousand, with early redemption of the remaining part of this debt in amount of USD 50 000 thousand.

Subordinated debts are subject to various covenants and restrictions (Note 22).

(thousands of Ukrainian hryvnia, unless otherwise stated)

21. Equity

As at 31 December 2016, the Bank's authorised issued share capital comprised 21,208,750 (31 December 2015: 14,834,780) ordinary shares with a nominal value of UAH 1,462.04 per share (31 December 2015: 1,462.04 per share). As at 31 December 2016, 21,208,750 shares were fully paid and registered (31 December 2015: all shares were fully paid and registered).

In January 2016, according to the Resolution of the Cabinet of Ministers of Ukraine No 33 dated 27 January 2016 the Bank's share capital was increased by UAH 9,318,999 thousand through issue of 6,373,970 new shares with nominal value of UAH 1,462.04 each with 100% of these shares kept by the State. In April 2016 these shares were registered.

The State of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 9,319,000 thousand with 10-year maturity and interest rate of 6% p.a.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
At 1 January 2015	11,414,901	16,689,042	16,689,042
Shares issued	3,419,879	5,000,000	5,000,000
At 31 December 2015	14,834,780	21,689,042	21,689,042
Shares issued	6,373,970	9,318,999	9,318,999
At 31 December 2016	21,208,750	31,008,041	31,008,041

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available for sale*	*Revaluation reserves*
At 1 January 2015	1,058,890	196,705	1,255,595
Depreciation of revaluation reserve, net of tax	(18,627)	–	(18,627)
Net gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	–	(31,205)	(31,205)
Net unrealised losses on available-for-sale investment securities	–	(540,940)	(540,940)
At 31 December 2015	1,040,263	(375,440)	664,823
Depreciation of revaluation reserve, net of tax	(18,400)	–	(18,400)
Net unrealised gains on available-for-sale investment securities	–	78,912	78,912
At 31 December 2016	1,021,863	(296,528)	725,335

Nature and purpose of revaluation reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

21. Equity (continued)

Nature and purpose of revaluation reserves (continued)

Unrealised gains/(losses) on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

Reserves and other funds of the Bank

The reserve fund is created in accordance with the Charter until it achieves 25 per cent of the regulatory capital at the beginning of each year. The size of the allocations to the reserve fund is not less than 5 per cent of the Bank’s annual profit. The reserve fund is created for unforeseen losses for all assets and off-balance sheet commitments.

The Bank’s distributable reserves are determined by the amount of the reserves according to the Bank’s accounts. As at 31 December 2016 the amount of non-distributable reserves was UAH 888,261 thousand (31 December 2015: UAH 827,749 thousand). Non-distributable reserves are represented by revaluation reserves and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. Commitments and contingencies

Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include low levels of liquidity in the capital markets and the existence of restrictive currency controls which cause the national currency to be illiquid outside of Ukraine, and banking operations in Ukraine involve high risks that are not typical for developed markets.

The Ukrainian economy is open and vulnerable to changes at the global commodity and capital markets. The continued low level of commodity prices at the global markets, a loss of production facilities in the eastern part of the country, as well as further decline of economic cooperation with the Customs Union’s countries have resulted in the reduction in the export volumes of commodities and services.

However, softening of military tensions in the eastern part of the country (in certain areas of the Donetsk and Lugansk regions) and also a stabilisation in the financial sector had a positive impact on the Ukrainian economy in 2016, that have reflected in the increase of such indicators as industrial production index and disposable income. First time since 2011, there was a growth in annual industrial production index of 2.8% as compared to preceding period, and, first time since 2013, there was a GDP growth of 2.3%.

At the same time, some volatility of the national currency exchange rate (as of 31 December 2016 the official NBU exchange rate of Hryvnia against US dollar was UAH 27.19 per USD 1, compared to UAH 24.00 per USD 1 as at 31 December 2015), with increased proportion of fixed costs in the structure of household consumption led to a further decline in domestic consumption. Thus, in 2016 the consumer inflation index fell to 12.4% (December 2016 to December 2015).

With economic situation in the country being stabilised, the NBU reduced interest borrowing rate six times (from 22% to 14%) and introduced some measures to liberalise currency control regulations.

Export deficit was offset by net inflows of foreign currency, mainly due to the increase in external government debt and the debt guaranteed by the government (in September next tranche under IMF EEF program was received), and net foreign investments, thus overall net foreign currency payment balance of Ukraine in 2016 remained in surplus.

Further recovery of the Ukrainian economy will be significantly impacted by geopolitical factors (results of the presidential and parliamentary elections in the USA, France, Germany will have a significant impact on the resolution of the conflict in the eastern part of the country and further international financing), external commodity markets conditions, and the policies and decisions of the Verhovna Rada, the Government, the NBU and the Administration of the President with regard to social and economic reforms.

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

At the same time, periodic escalations prevent the recovery of operations in the eastern part of the country of the Ukrainian banking system and the Bank, in particular.

A growth in non-performing loans, a high level of corporate debt and respective high risks is an obstacle to recover financing of the Ukrainian economy. Thus, a surplus in liquidity available within the banking system is invested most of the time into low risk financial instruments such as government securities.

A continuous threat of unemployment growth, low liquidity and low efficiency of Ukrainian enterprises, an increase in defaults of companies and individuals and a decline in collateral values are having a negative impact on borrowers' ability to service and repay debts due to the Bank. Upon receipt of such information, the Bank promptly revises its estimates of future cash flows and implements necessary measures to sustain the Bank's business, including the structural optimisation and cost reduction.

Legal aspects

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly reduces with the passage of time.

Management believes that there is a risk of possible outflow of resources for certain transactions, which cannot be reliably estimated and will depend on the tax authorities' approach.

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Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties and, in some cases with unrelated parties (controlled operations) that are not at market value, entities should charge additional taxes. The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance with the transfer pricing rules.

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	31 December 2016	*31 December 2015*
Guarantees	3,748,869	5,866,577
Letters of credit	1,115,770	463,133
Undrawn loan commitments	273,651	181,127
Avals on promissory notes	117,620	34,184
	5,255,910	6,545,021
Less – provisions (Note 14)	(5,137)	(22,213)
Financial commitments and contingencies (before deducting collateral)	5,250,773	6,522,808
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 17, Note 18)	(1,453,094)	(1,011,880)
Financial commitments and contingencies	3,797,679	5,510,928

(thousands of Ukrainian hryvnia, unless otherwise stated)

22. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

As at 31 December 2016, the Bank issued letters of credit of UAH 792,963 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 662,463 thousand (31 December 2015: UAH 418,043 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 399,374 thousand).

As at 31 December 2016, the Bank issued guarantees of UAH 2,827,304 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 164,326 thousand (31 December 2015: UAH 4,823,056 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 360,708 thousand).

As at 31 December 2016 undrawm loan commitments for plastic cards amounted to UAH 184,137 thousand (31 December 2015: UAH 182,595 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank (capital adequacy, liquidity, credit risks). The benchmarks for such covenants are set per the terms of the agreements, other documents agreed upon by the parties of the agreements, with a reference to the international and local regulatory requirements. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

23. Net commission income

Net commission income comprises:

	2016	*2015*
Commission income		
Cash and settlement service	599,419	547,741
Guarantees and letters of credit	251,669	417,850
Operations with banks	115,363	98,239
Credit servicing commission	12,329	13,028
Other	24,868	25,732
	1,003,648	1,102,590
Commission expense		
Cash and settlement service	(254,699)	(189,825)
Guarantees and letters of credit	(88,938)	(195,103)
Currency conversion	(3,013)	(3,835)
Other	(5,467)	(3,282)
	(352,117)	(392,045)
Net commission income	651,531	710,545

(thousands of Ukrainian hryvnia, unless otherwise stated)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	640,965	661,462
Charges on payroll	124,651	203,487
Personnel expenses	765,616	864,949
Payables to Guarantee Fund of Individuals’ Deposits	222,226	210,813
Loss on fair value remeasurement for investment property	160,610	422,409
Repair and maintenance expenses	104,526	81,670
Operating taxes	104,225	30,694
Security	34,309	26,398
Occupancy cost	34,101	29,105
Legal and advisory services	28,244	18,683
Rent cost	27,026	26,455
Electronic and data processing costs	26,037	23,777
Expenses for cash collection	25,907	25,134
Household expenses	18,160	17,848
Communications	13,106	9,250
Business travel and related expenses	6,624	7,898
Marketing and advertising	6,326	7,342
Expenses related to representative offices	4,511	7,295
Charity	1,619	7,474
Other	23,599	13,434
Other operating expenses	841,156	965,679

Expenses for payment to the non-state pension fund in 2016 comprised UAH 10,145 thousand (2015: UAH 10,142 thousand).

25. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. The risk management process makes a crucial contribution in ensuring the Bank’s efficiency and profitability and each employee of the Bank is responsible for adhering to the risk management rules and procedures in the course of fulfilling their tasks and duties.

The Bank adheres to the following key risk management principles:

- Centralisation of liquidity, interest and currency risk management at the Head Office level;
- Unification of analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- Clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- Definition of risk limits for transaction volumes: by Bank or Branch Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions / balance sheet items, etc.);
- Ensuring continuous risk monitoring and control and compliance with all established limits;
- Avoidance of conflicts of interest;
- Ensuring internal control over compliance with policies and procedures.

25. Risk management (continued)

Introduction (continued)

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank’s strategic planning process.

Risk management structure

The Supervisory Board is generally responsible for establishment and approval of objectives in the sphere of risk management and management of capital. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee (“ALCO”), Credit Committee, Retail Business Committee, Risk Service, Securities Division, Treasury Division, Internal Audit Division.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by relevant risk decisions based on quarterly reports of the Risk Service, ALCO, Credit Committee and Retail Business Committee. The Management Board approves the Bank’s risk management.

Assets and Liabilities Committee (“ALCO”)

The ALCO has the overall responsibility for implementing principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by the Management Board. The ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

The Credit Committee and Retail Business Committee have the overall responsibility for implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Management Board. These committees report to the Management Board.

Risk Service

Risk Service is responsible for control, monitoring, analysis and reporting of key risk indicators connected with the Bank’s activities. In addition, Risk Service elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. The Risk Service reports to the Management Board.

Treasury and Securities Divisions

Treasury is responsible for the management of the Bank’s liquidity position via money market operations, while Securities Division is responsible for management of the Bank’s liquidity position via capital market operations. The Treasury Division and Securities Division report to the Management Board.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Introduction (continued)

Internal Audit Division

The risk management processes are audited on a regular basis by Internal Audit Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Management Board and the Supervisory Board.

Risk measurement and risk reporting systems

The Bank's risks are measured using methods, which reflect both the expected loss under normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios reflecting the impact of extreme events with la low probability of occurrence. The Bank carries out back-testing of the models to checks their adequacy.

Risks are monitored and controlled primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by the ALCO, and covenants under contractual obligations of the Bank is submitted to the ALCO on a monthly basis. The Management Board receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

Risk Mitigation

The Bank does not use derivatives to manage risks arising from changes in interest rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise credit risk (see below for more detail).

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

Credit risk

The Banks considers credit risk as the probability of non-timely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

In managing credit risk, the Bank considers the following:

- Structural (strategic) management – acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in short, medium and long term horizon taking into consideration estimated and unpredictable changes in the financial and economic environment;
- On-going (operational) management – acceptable quality and volume of individual loans and commitments taking into consideration estimated and unpredictable changes in the financial and economic environment;
- Structural (strategic) and on-going (operational) management of the allowance for impairment effect on the Bank’s capital adequacy ratio in short, medium and long term horizon taking into consideration estimated and unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- Setting targets (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;
- Providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank’s internal regulations;
- Creation and maintaining allowances and provisions for loan related operations in volumes, which are not lower than the Bank’s best estimates;
- Constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio;
- Taking efficient measures if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer’s (counterparties’) creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset’s impairment.

The Bank’s lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one insider, including financial commitments and contingencies.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: classification on the basis of an internal system of ratings, monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 50 largest customers.

Credit-related commitment risks

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks, and are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. If the letters of credit are opened on uncovered basis the Bank has risks similar to credit risks, which are mitigated by similar control procedures and principles.

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

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

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

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

Credit quality by category of financial assets

In 2015 the Bank introduced a new system of calculation of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and the rating class (PD-rate) from 1 to 17 (17 grades). In the table below for loans that are neither past due nor individually impaired, high rating mean the minimum level of credit risk. Other borrowers with good financial position and quality of debt servicing are included in the standard credit rating. The below standard rating have lower credit quality compared to previous ratings, but loans are not necessarily individually impaired. For loans that are past due or individually impaired, rating standard and below standard indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Low rating means that there is a high probability of default of loan, the borrower's activity is poor, loss making or ceased. For the exposures of foreign credit institutions: high rating is equal to the Fitch rating BBB- and higher, standard rating is equal to lower than BBB-, but higher than CCC+, and rating below standard and lower is equal to rating CCC+ and lower.

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2016	*Notes*	*High rating*	*Standard rating*	*Below standard rating*	*Standard and below standard rating*	*Low rating*	*Total*
Cash and cash equivalents	6	21,378,517	–	–	–	–	21,378,517
Amounts due from foreign credit institutions	7	683,609	–	–	–	–	683,609
Amounts due from Ukrainian credit institutions	7	20	–	758,692	–	948,020	1,706,732
Investment securities:	9						
- designated at fair value through profit or loss		24,064,110	–	–	–	–	24,064,110
- available-for-sale		46,163,120	2,030,429	–	–	–	48,193,549
- held-to-maturity		139,098	–	–	–	–	139,098
Loans to corporate customers:	8						
Commercial loans		9,132,815	21,269,325	7,516,521	25,175,588	38,975,561	102,069,810
Overdrafts		86,577	205,730	31,863	132,036	–	456,206
Finance lease receivables		82,378	–	7,151	–	5,135	94,664
Promissory notes		57,098	9,172	–	–	–	66,270
		9,358,868	21,484,227	7,555,535	25,307,624	38,980,696	102,686,950
Loans to individuals	8	7,371	46,352	13,932	171,969	1,093,764	1,333,388
Total		101,794,713	23,561,008	8,328,159	25,479,593	41,022,480	200,185,953
Provision for impairment		(113,889)	(843,220)	(626,024)	(8,193,535)	(36,620,004)	(46,396,672)
Total after provision for impairment		101,680,824	22,717,788	7,702,135	17,286,058	4,402,476	153,789,281

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2015	*Notes*	*High rating*	*Standard rating*	*Below standard rating*	*Standard and below standard rating*	*Low rating*	*Total*
Cash and cash equivalents	6	24,241,179	–	–	–	–	24,241,179
Amounts due from foreign credit institutions	7	336,366	–	–	–	–	336,366
Amounts due from Ukrainian credit institutions	7	20	–	3,745,874	2,965	547,264	4,296,123
Investment securities:	9	–	–	–	–	–	
- designated at fair value through profit or loss		9,924,610	–	–	–	–	9,924,610
- available-for-sale		37,163,276	4,028,294	–	–	–	41,191,570
- held-to-maturity		230,912	–	–	–	–	230,912
Loans to corporate customers:	8	–	–	–	–	–	
Commercial loans		9,318,389	18,832,198	7,170,623	22,363,090	36,522,320	94,206,620
Overdrafts		48,188	64,111	140,497	20,558	–	273,354
Finance lease receivables		51,033	63,361	2,006	15,331	11,816	143,547
Promissory notes		12,390	–	9,155	–	–	21,545
		9,430,000	18,959,670	7,322,281	22,398,979	36,534,136	94,645,066
Loans to individuals	8	9,581	71,755	152,582	28,572	1,040,558	1,303,048
Total		81,335,944	23,059,719	11,220,737	22,430,516	38,121,958	176,168,874
Provision for impairment		(105,330)	(756,712)	(757,782)	(7,067,120)	(32,710,013)	(41,396,957)
Total after provision for impairment		81,230,614	22,303,007	10,462,955	15,363,396	5,411,945	134,771,917

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The ageing analysis of past due but not impaired loans is provided below:

At 31 December 2016	*Less than 30 days*	*From 31 to 60 days*	*From 61 to to 90 days*	*Total*
Loans to customers				
Loans to corporate customers	11,913	275	1,843	14,031
Loans to individuals	11,071	9,289	1,562	21,922
Total	22,984	9,564	3,405	35,953

At 31 December 2015	*Less than 30 days*	*From 31 to 60 days*	*From 61 to to 90 days*	*Total*
Loans to customers				
Loans to corporate customers	1,574,277	1,123,307	16,108	2,713,692
Loans to individuals	22,390	3,009	2,330	27,729
Total	1,596,667	1,126,316	18,438	2,741,421

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Credit risk (continued)

The table below presents the value of collateral taken by the Bank when assessing the impairment of assets, in the amount not exceeding the carrying amount of the loan.

	31 December 2016	*31 December 2015*
Loans to corporate customers	46,252,053	47,700,338
Loans to individuals	202,266	298,578
Total	46,454,319	47,998,916

Impairment assessment

The main considerations for the loan impairment assessment is based on a determination whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances (on a portfolio basis).

Geographical concentration

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	31 December 2016			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	10,609,012	10,643,182	126,323	21,378,517
Due from credit institutions	867,369	639,620	37,487	1,544,476
Loans to customers	58,469,531	–	–	58,469,531
Investment securities:				
- designated at fair value through profit or loss	24,064,110	–	–	24,064,110
- available-for-sale	48,193,549	–	–	48,193,549
- held-to-maturity	139,098	–	–	139,098
Other financial assets	353,292	2,266	157	355,715
	142,695,961	11,285,068	163,967	154,144,996
Liabilities				
Amounts due to the National Bank of Ukraine	659	–	–	659
Amounts due to credit institutions	2,661,207	25,268,696	826	27,930,729
Amounts due to customers	84,673,369	425,818	689,765	85,788,952
Eurobonds issued	–	37,562,345	–	37,562,345
Subordinated debt	–	3,495,895	–	3,495,895
Other financial liabilities	29,071	17,434	348	46,853
	87,364,306	66,770,188	690,939	154,825,433
Net position	55,331,655	(55,485,120)	(526,972)	(680,437)
Commitments and contingencies (Note 22)	3,793,111	4,568	–	3,797,679

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Geographical concentration (continued)

	31 December 2015			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	10,552,282	13,482,723	206,174	24,241,179
Due from credit institutions	3,747,379	299,716	36,648	4,083,743
Loans to customers	55,099,903	–	–	55,099,903
Investment securities:				
- designated at fair value through profit or loss	9,924,610	–	–	9,924,610
- available-for-sale	41,191,570	–	–	41,191,570
- held-to-maturity	230,912	–	–	230,912
Other financial assets	402,036	1,361	785	404,182
	121,148,692	13,783,800	243,607	135,176,099
Liabilities				
Amounts due to the National Bank of Ukraine	2,979,775	–	–	2,979,775
Amounts due to credit institutions	1,390,026	17,905,990	2,854	19,298,870
Amounts due to customers	78,011,047	397,151	909,745	79,317,943
Eurobonds issued	–	33,122,294	–	33,122,294
Subordinated debt	–	9,375,369	–	9,375,369
Other financial liabilities	41,275	44,714	292	86,281
	82,422,123	60,845,518	912,891	144,180,532
Net position	38,726,569	(47,061,718)	(669,284)	(9,004,433)
Commitments and contingencies (Note 22)	5,494,694	4,234	12,000	5,510,928

Liquidity risk

The Bank considers liquidity risk as the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

While managing liquidity risk, the Bank is considering a combination of the following:

- Structural (short and long-term) assets and liabilities management focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- Current (short-term) assets and liabilities management focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management is based on acceptable levels of maturity gaps (by currency) and on the following principles:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- Permanent monitoring of actual key liquidity risk indicators;
- Use of adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

Key liquidity risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Liquidity risk (continued)

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU.

The liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	31 December 2016, %	*31 December 2015, %*
N4 "Instant Liquidity Ratio" (cash in hand, balances on nostro accounts with banks and unpledged deposit certificates of the National Bank of Ukraine / balances on customers' current accounts) (minimum required by the NBU – 20%)	45.25	64.68
N5 "Current Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	180.29	123.09
N6 "Short-Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	154.82	136.98

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

Financial liabilities At 31 December 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the NBU	659	–	–	–	659
Amounts due to credit institutions	3,700,861	6,183,234	12,548,953	11,751,119	34,184,167
Amounts due to customers	72,226,352	13,178,342	634,774	90,241	86,129,709
Eurobonds issued	795,333	2,776,891	38,437,040	10,330,032	52,339,296
Subordinated debt	138,685	139,447	3,418,973	919,911	4,617,016
Other liabilities	46,853	–	–	–	46,853
Commitments and contingent financial liabilities	1,023,020	2,576,608	1,628,885	27,397	5,255,910
Total undiscounted financial liabilities	77,931,763	24,854,522	56,668,625	23,118,700	182,573,610

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities At 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the NBU	150,436	551,739	3,961,332	–	4,663,507
Amounts due to credit institutions	2,066,080	873,065	7,507,242	14,740,143	25,186,530
Amounts due to customers	66,144,071	12,979,150	1,272,008	72,127	80,467,356
Eurobonds issued	702,020	2,437,806	24,561,115	21,640,812	49,341,753
Subordinated debt	495,054	490,898	10,753,945	1,392,851	13,132,748
Other liabilities	86,281	–	–	–	86,281
Commitments and contingent financial liabilities	1,385,403	3,359,641	1,799,716	261	6,545,021
Total undiscounted financial liabilities	71,029,345	20,692,299	49,855,358	37,846,194	179,423,196

The above table shows the timing of expiry dates of commitments and contingent financial liabilities of the Bank according to the respective agreements. The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank’s obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Market risk management is performed by systematic combination of:

- Interest risk management;
- Foreign currency risk management.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank’s interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank’s operations including the effect of negative impact by internal and external factors.

Interest rate risk management is performed through a combination of:

- Structural (strategic) and current (operational) management of interest-earning assets aimed at achieving acceptable structure and volume of interest income in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates;
- Structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and volume of interest expenses in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates.

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Interest rate risk (continued)

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- Setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key interest rate risk indicators;
- Permanent monitoring of actual values of key interest rate risk indicators;
- Taking efficient measures if the actual values of key interest rate risk indicators approach their critical and/or threshold levels.

Key interest rate risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit and loss (consolidated income statement).

The sensitivity of the consolidated statement of profit and loss (consolidated income statement) reflects the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date.

	31 December 2016				
Currency	*Base for interest rate*	*Increase in basis points*	*Effect on profit before income tax expense*	*Decrease in basis points*	*Effect on profit before income tax expense*
UAH	NBU	+100	2,426	-100	(2,426)
USD	LIBOR	+75	(110,104)	-75	110,160
EUR	LIBOR	+75	–	-75	–
EUR	Euribor	+75	(1,961)	-75	1,863
Other	LIBOR	+75	457	-75	(457)
Other	Euribor	+75	3	-75	(3)
Total			(109,179)		109,137

	31 December 2015				
Currency	*Base for interest rate*	*Increase in basis points*	*Effect on profit before income tax expense*	*Decrease in basis points*	*Effect on profit before income tax expense*
UAH	NBU	+100	3,144	-100	(3,144)
USD	LIBOR	+75	(117,288)	-75	117,288
EUR	LIBOR	+75	31	-75	(31)
EUR	Euribor	+75	(1,049)	-75	907
Other	LIBOR	+75	542	-75	(542)
Other	Euribor	+75	3	-75	(3)
Total			(114,617)		114,475

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December to assess the possible effects of the assumed changes in interest rates. For securities classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified at the 3 level of the hierarchy - a method of yield curve, with the following assumptions: +/-400 b.p. for corporate bonds, +/-200 b.p. for Ukrainian state bonds denominated in local currency, +/-100 b.p. for Ukrainian state bonds in USD, +/-20% interest rate change for corporate bonds of the 3 level of hierarchy. As at 31 December 2016, the total effect of the changes on the Bank's equity is: UAH (902,490) thousand / UAH 902,490 thousand (2015: UAH (1,169,741) thousand / UAH 1,169,741 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Risk management (continued)

Interest rate risk (continued)

Sensitivity of net profit/(loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit/(loss) as of 31 December in terms of effects of the assumed changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/-100 b.p. for Ukrainian state bonds on the Bank's income is UAH (983,675) thousand / UAH 983,675 thousand (2015: UAH (113,405) thousand / UAH 113,405 thousand).

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is performed through a combination of:

- Structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates;
- Structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

Currency risk management is aimed at securing an excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- Setting targets (optimal and acceptable to the Bank), critical (undesired but manageable) and threshold (urgent measures) values of key currency risk indicators;
- Continuous monitoring of actual values of key currency risk indicators;
- Taking efficient measures if the actual values of key currency risk indicators approach their critical and/or threshold values.

Key currency risk indicators, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Hryvnia, with all other variables held constant on the consolidated statement of profit and loss (consolidated income statement) (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss (consolidated income statement) or equity, while a positive amount reflects a net potential increase.

	31 December 2016		*31 December 2015*	
Currency	*Change in currency rate, %*	*Effect on profit before tax*	*Change in currency rate, %*	*Effect on profit before tax*
UAH/USD	+40.00%	(3,731,917)	+40.00%	(6,051,942)
UAH/EUR	+40.00%	(250,085)	+40.00%	(680,689)
Total		(3,982,002)		(6,732,631)
UAH/USD	-30.00%	5,998,692	-30.00%	4,538,956
UAH/EUR	-30.00%	187,564	-30.00%	510,517
Total		6,186,256		5,049,473

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities

Fair value measurement procedures

For unquoted trading and available-for-sale securities and unquoted derivatives the fair value measurements are based on the accounting policies of the Bank and approved procedures of the securities portfolio management The fair values are calculated regularly using key inputs of previous measurements and other relevant information as appropriate. Securities are revalued on a monthly basis and approved by the Bank's Credit Committee.

The Bank tests the fair values of investment properties and buildings twice a year by engaging domestic professionally qualified valuers that have extensive and relevant valuation expertise. The decision on revaluation of investment properties and buildings is made by the Board of Directors based on an evaluation of the fair value of investment properties compared to their carrying amount, and whether the fair value of buildings significantly differs from their carrying amount. The investment properties and buildings are valued by external independent appraisers that are accredited with the Bank or internal appraisers. Appraisers have the market knowledge, good reputation and adhere to the principles of independence and professional standards according to the decision made by the Board of Directors.

Levels of the fair value hierarchy

For the purposes of disclosing the information about fair value, the Bank classifies the assets and liabilities based on the nature, characteristics and risks of an asset or liability and the levels of the fair value hierarchy as shown below (at carrying value):

	31 December 2016				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2016	–	121,567	–	121,567
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2016	–	24,064,110	–	24,064,110
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2016	–	46,163,120	–	46,163,120
Corporate bonds	31.12.2016	–	2,018,739	–	2,018,739
Corporate shares	31.12.2016	–	–	11,690	11,690
Investment property	31.12.2016	–	–	1,344,074	1,344,074
Buildings	31.12.2014	–	–	1,815,850	1,815,850
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2016	–	166,367	–	166,367
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2016	6,592,738	14,785,779	–	21,378,517
Amounts due from credit institutions	31.12.2016	–	1,422,909	–	1,422,909
Loans to customers	31.12.2016	–	–	58,414,201	58,414,201
Securities held to maturity	31.12.2016	–	142,295	–	142,295
Other assets	31.12.2016	–	355,715	–	355,715
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31.12.2016	–	659	–	659
Amounts due to credit institutions	31.12.2016	–	27,930,729	–	27,930,729
Amounts due to customers	31.12.2016	–	85,592,252	–	85,592,252
Eurobonds issued	31.12.2016	37,014,419	–	–	37,014,419
Subordinated debt	31.12.2016	2,961,457	–	–	2,961,457
Other liabilities	31.12.2016	–	46,853	–	46,853

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

	31 December 2015				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2015	–	106,968	–	106,968
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2015	–	9,924,610	–	9,924,610
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2015	–	37,163,276	–	37,163,276
Corporate bonds	31.12.2015	–	2,388,565	–	2,388,565
Municipal bonds	31.12.2015	–	1,628,039	–	1,628,039
Corporate shares	31.12.2015	–	–	11,690	11,690
Investment property	01.11.2015	–	–	1,570,736	1,570,736
Buildings	31.12.2014	–	–	1,845,255	1,845,255
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2015	–	184,758	–	184,758
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2015	3,294,142	20,947,037	–	24,241,179
Amounts due from credit institutions	31.12.2015	–	3,976,775	–	3,976,775
Loans to customers	31.12.2015	–	–	52,878,035	52,878,035
Securities held to maturity	31.12.2015	–	225,113	–	225,113
Other assets	31.12.2015	–	404,182	–	404,182
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31.12.2015	–	2,979,775	–	2,979,775
Amounts due to credit institutions	31.12.2015	–	19,298,870	–	19,298,870
Amounts due to customers	31.12.2015	–	79,184,522	–	79,184,522
Eurobonds issued	31.12.2015	30,124,193	–	–	30,124,193
Subordinated debt	31.12.2015	2,359,991	6,298,447	–	8,658,438
Other liabilities	31.12.2015	–	86,281	–	86,281

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Levels of the fair value hierarchy (continued)

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

	31 December 2016			*31 December 2015*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	21,378,517	21,378,517	–	24,241,179	24,241,179	–
Amounts due from credit institutions	1,422,909	1,422,909	–	3,976,775	3,976,775	–
Loans to customers	58,469,531	58,414,201	(55,330)	55,099,903	52,878,035	(2,221,868)
Securities held to maturity	139,098	142,295	3,197	230,912	225,113	(5,799)
Other assets	355,715	355,715	–	404,182	404,182	–
Financial liabilities						
Amounts due to the National Bank of Ukraine	659	659	–	2,979,775	2,979,775	–
Amounts due to credit institutions	27,930,729	27,930,729	–	19,298,870	19,298,870	–
Amounts due to customers	85,622,585	85,592,252	30,333	79,133,185	79,184,522	(51,337)
Eurobonds issued	37,562,345	37,014,419	547,926	33,122,294	30,124,193	2,998,101
Subordinated debt	3,495,895	2,961,457	534,438	9,375,369	8,658,438	716,931
Other liabilities	46,853	46,853	–	86,281	86,281	–
Total unrecognized change in unrealized fair value			1,060,564			1,436,028

The following describes the methodologies and assumptions used to determine fair values for those annual consolidated financial instruments, which are not recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair values 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.

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Investment securities available for sale (excluding shares), are valued using market quotes. Investment securities designated at fair value through profit or loss are valued using a valuation model, which assumptions confirmed by observable data (exchange rate, volatility, interest rates).

Investment securities available for sale which are valued using a valuation technique or pricing models primarily consist of shares. These securities are valued using models utilising data which is based on the non-observable inputs. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates level of enterprise goodwill, its management and founders / shareholders.

Investment property

The highest and best use method specifies that the market value of the real estate property is based on its highest and best use which creates the highest value for the property. Only asset utilisations that are technically feasible, permissible and economically justifiable are considered.

Other valuation principles are used in line with the selected valuation approaches subject to the provisions of the national standard No. 1 *General Principles of Valuation of Property and Property Rights*, approved by the Cabinet Ministers of Ukraine No. 1440 from 10 September 2003.

Land plots are valued by applying the sales comparison approach.

Real estate is valued using either the comparative or income approach (based on the principle of expected future benefits from the use of a valued item) subject to the availability of market information and best use.

Buildings

The fair value of buildings was measured mainly using the comparative approach and in certain cases by applying either or both of the cost and income approach.

Movements in level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which is recorded at fair value:

	1 January 2016	*Total gain/(loss) recorded in consolidated statement of profit and loss (consolidated income statement)*	*Purchases*	*Settlements*	*31 December 2016*
Available-for-sale investment securities	11,690	24[a]	–	(24)[b]	11,690
Investment property	1,566,942	(157,694)[c]	12,306[d]	(77,480)[e]	1,344,074
Buildings	1,845,255	(31,277)[f]	1,872[g]	–	1,815,850
Total assets	3,423,887	(188,947)	14,178	(77,504)	3,171,614

26. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

	1 January 2015	*Total loss recorded in consolidated statement of profit and loss (consolidated income statement)*	*Purchases*	*Settlements*	*31 December 2015*
Available-for-sale investment securities	487,748	(452,702)[(a)]	–	(23,356)[(b)]	11,690
Investment property	1,986,087	(422,224)[(c)]	3,794[(d)]	(715)[(e)]	1,566,942
Buildings	1,873,417	(31,511)[(f)]	3,349[(g)]	–	1,845,255
Total assets	4,347,252	(906,437)	7,143	(24,071)	3,423,887

(a) UAH 24 thousand included in "Other income" (2015: UAH 580 thousand included in "Other income", UAH 19,649 thousand included in "Interest income from investment securities other than designated at fair value through profit or loss", and UAH 472,931 thousand of loss is included in losses from available-for-sale investment securities "Losses on impairment").

(b) UAH 24 thousand of settlements comprise: UAH 24 thousand of repayments (2015: UAH 23,356 thousand of settlements comprise: UAH 23,356 thousand of repayments).

(c) Loss from revaluation of investment property in the amount of UAH 160,610 thousand is included in other operating expenses, gain from sale of investment property of UAH 2,916 thousand is included in other income (2015: loss from revaluation of investment property in the amount of UAH 422,409 thousand is included in other operating expenses, gain from sale of investment property of UAH 185 thousand is included in other income).

(d) Purchases in 2016 include UAH 12,306 thousand of purchases (2015: UAH 3,794 thousand of own property transferred to investment property).

(e) Settlements in the amount of UAH 77,480 thousand include UAH 77,467 thousand of sales UAH 13 thousand of transfers to property and equipment (2015: UAH 715 thousand of sales).

(f) Loss of UAH 31,277 thousand is included into depreciation and amortization (2015: loss of UAH 31,511 thousand is included into depreciation and amortization).

(g) Purchases in 2016 in the amount of UAH 1,872 thousand include UAH 56 thousand of purchases and UAH 1,816 thousand of transfer from construction in progress to premises and equipment (2015: UAH 3,349 thousand of transfer from construction in progress to premises and equipment).

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2016		
	Realised gains	*Unrealised losses*	*Total*
Investment securities available for sale	24	–	24
Investment property	2,916	(160,610)	(157,694)
Buildings	–	(31,277)	(31,277)
Total	2,940	(191,887)	(188,947)

	2015		
	Realised gains	*Unrealised losses*	*Total*
Investment securities available for sale	14,741	(467,443)	(452,702)
Investment property	185	(422,409)	(422,224)
Buildings	–	(31,511)	(31,511)
Total	14,926	(921,363)	(906,437)

(thousands of Ukrainian hryvnia, unless otherwise stated)

26. Fair value of assets and liabilities (continued)

Movements in level 3 assets measured at fair value (continued)

The tables below shows the quantitative information as at 31 December 2016 and 31 December 2015 about significant unobservable inputs used for the fair valuation of assets classified as those of the 3 level of the fair value hierarchy:

At 31 December 2016	*Carrying value*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Available-for-sale investment securities	11,690	Discounted cash flows	Expected profitability	Corporate: 13.50%-32.00%
			Risk factor	Corporate: 0-1.0
Investment property:				
- *real estate*	565,960	Comparative, income method	Sqm	UAH 1 thousand – UAH 39 thousand
- *land*	778,114	Comparative	Are	UAH 3 thousand – UAH 3,027 thousand
Buildings:				
- *real estate*	1,814,212	Comparative	Sqm	UAH 1 thousand – UAH 34 thousand
- *land*	1,638	Comparative	Are	UAH 56 thousand – UAH 194 thousand

At 31 December 2015	*Carrying value*	*Valuation technique*	*Unobservable parameter*	*Range of parameter values*
Available-for-sale investment securities	11,690	Discounted cash flows	Expected profitability	Corporate: 5.00%-32.00%
			Risk factor	Corporate: 0-1.0
Investment property:				
- *real estate*	651,275	Comparative, income method	Sqm	UAH 1 thousand – UAH 36 thousand
- *land*	915,667	Comparative	Are	UAH 6 thousand – UAH 2,596 thousand
Buildings:				
- *real estate*	1,843,617	Comparative	Sqm	UAH 1 thousand – UAH 34 thousand
- *land*	1,638	Comparative	Are	UAH 56 thousand – UAH 194 thousand

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

In order to determine possible alternative assumptions, the Bank uses key unobservable inputs as follows:

- For equities, the Bank adjusted the assumptions as to the possibility of bankruptcy or losses that were used to determine the credit component in fair value. The adjustment made was to increase the assumption up to 100% subject to individual characteristics of the investee;
- For debt securities classified as level 3, the Bank adjusted the probability of changes in interest rate assumption applied for discounting cash flows from debt securities within the range of +/-30% (31 December 2015: +/-30%) of the level as at the end of the reporting period.

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 for the Bank’s contractual undiscounted repayment obligations.

	31 December 2016			*31 December 2015*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	21,378,517	–	21,378,517	24,241,179	–	24,241,179
Due from credit institutions	810,785	733,691	1,544,476	2,854,695	1,229,048	4,083,743
Loans to customers	36,136,670	22,332,861	58,469,531	30,713,229	24,386,674	55,099,903
Investment securities:						
- designated at fair value through profit or loss	323,477	23,740,633	24,064,110	6,798,950	3,125,660	9,924,610
- available-for-sale	21,807,627	26,385,922	48,193,549	33,727,611	7,463,959	41,191,570
- held-to-maturity	6,032	133,066	139,098	59,097	171,815	230,912
Tax assets	101,677	–	101,677	293,122	–	293,122
Investment property	–	1,344,074	1,344,074	–	1,566,942	1,566,942
Property and equipment	–	2,120,672	2,120,672	–	2,170,944	2,170,944
Intangible assets	–	26,778	26,778	–	17,584	17,584
Deferred income tax asset	–	2,322,000	2,322,000	–	1,730,750	1,730,750
Other assets	697,747	–	697,747	797,253	–	797,253
Total	81,262,532	79,139,697	160,402,229	99,485,136	41,863,376	141,348,512
Liabilities						
Amounts due to the National Bank of Ukraine	659	–	659	1,948	2,977,827	2,979,775
Amounts due to credit institutions	5,959,202	21,971,527	27,930,729	2,168,271	17,130,599	19,298,870
Amounts due to customers	85,101,559	687,393	85,788,952	78,143,111	1,174,832	79,317,943
Eurobonds issued	1,097,973	36,464,372	37,562,345	982,002	32,140,292	33,122,294
Subordinated debt	113,350	3,382,545	3,495,895	426,947	8,948,422	9,375,369
Provisions for other losses	5,137	–	5,137	22,213	–	22,213
Other liabilities	258,246	–	258,246	292,387	–	292,387
Total	92,536,126	62,505,837	155,041,963	82,036,879	62,371,972	144,408,851
Net amount	(11,273,594)	16,633,860	5,360,266	17,448,257	(20,508,596)	(3,060,339)

The maturity analysis does not reflect the historical stability of current accounts. In the table above current accounts are reflected in the Amount due to customers in “Within one year” maturity bucket. It should be noted that historically substantial portion of funds have remained on the current accounts for periods longer than one year. The category Amounts due to customers includes term deposits of individuals in accordance with their contractual maturity dates. In accordance with Ukrainian legislation, the Bank is obliged to repay time deposit to individuals on their request only on maturity date prescribed in the deposit agreement. Early repayment of time deposit on customer request is prohibited and could be done only in the cases and under conditions stipulated by such agreement. The Bank expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities .

(thousands of Ukrainian hryvnia, unless otherwise stated)

28. Presentation of financial instruments by measurement category

Assets by measurement categories as at 31 December 2016:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through profit or loss*	*Assets held to maturity*	*Total*
Cash and cash equivalents	21,378,517	–	–	–	21,378,517
Due from credit institutions	1,422,909	–	121,567	–	1,544,476
Loans to customers	58,469,531	–	–	–	58,469,531
Investment securities:					
- designated at fair value through profit or loss	–	–	24,064,110	–	24,064,110
- available-for-sale	–	48,193,549	–	–	48,193,549
- held-to-maturity	–	–	–	139,098	139,098
Other financial assets	355,715	–	–	–	355,715
Total	81,626,672	48,193,549	24,185,677	139,098	154,144,996

Assets by measurement categories as at 31 December 2015:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through profit or loss*	*Assets held to maturity*	*Total*
Cash and cash equivalents	24,241,179	–	–	–	24,241,179
Due from credit institutions	3,976,775	–	106,968	–	4,083,743
Loans to customers	55,099,903	–	–	–	55,099,903
Investment securities:					
- designated at fair value through profit or loss	–	–	9,924,610	–	9,924,610
- available-for-sale	–	41,191,570	–	–	41,191,570
- held-to-maturity	30,128	–	–	200,784	230,912
Other financial assets	404,182	–	–	–	404,182
Total	83,752,167	41,191,570	10,031,578	200,784	135,176,099

As at 31 December 2016 and 31 December 2015, all financial liabilities of the Bank were carried at amortized cost, except for deposits in gold, which belong to the fair value through profit or loss measurement category.

29. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if they are under common control or if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with Ukrainian government-related entities (both directly and indirectly controlled by and under significant influence of the Government) and key management personnel.

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party disclosures (continued)

The outstanding balances of key management personnel as at 31 December 2016 and 2015, and related income and expense for the years ended 31 December 2016 and 2015, are as follows:

	31 December 2016	*31 December 2015*
	Key management personnel	*Key management personnel*
Loans to customers	401	170
Less: Allowance for impairment	(269)	(23)
Loans to customers, net	132	147
Current accounts	4,399	21,758
Time deposits	5,511	2,666
Amounts due to customers	9,910	24,424
Other liabilities	(7)	–

	2016	*2015*
	Key management personnel	*Key management personnel*
Interest income on loans	81	2
Interest expense on customers’ deposits	(245)	(153)
Commission income	3	–
Translation differences	(1,768)	(10,466)

The aggregate remuneration and other benefits paid to key management personnel for the year ended 31 December 2016 is UAH 19,473 thousand (UAH 280 thousand payment to non-state pension fund) (for the year ended 31 December 2015: UAH 24,400 thousand (UAH 314 thousand payment to non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of the Ukraine and entities controlled or significantly influenced by it. The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, operation with securities, cash and settlement transaction.

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2016 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State enteties	–	–	1,820,863	–	–	–
Client 2	State enteties	–	–	1,514,166	–	–	–
Client 3	Agriculture and food industry	–	–	27,358,937	–	–	–
Client 4	Extractive industry	–	10,581,585	–	–	–	–
Client 5	Extractive industry	–	1,173,526	–	–	–	–
Client 6	Finance	5,372,785	–	–	659	–	–
Client 7	Finance	–	–	–	–	364,134	–
Client 8	Trade	–	–	1,644,607	–		1,357,720
Client 9	Trade	–	–	–	–	–	847,445
Client 10	Power engineering	–	3,452,694	–	–	–	–
Client 11	Mechanical engineering	–	2,290,686	–	–	–	311,872
Other		–	–	7,376,726	–	–	–

(thousands of Ukrainian hryvnia, unless otherwise stated)

29. Related party disclosures (continued)

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2015 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Amounts due to credit institutions*	*Guarantees issued*
Client 1	State enteties	–	–	–	1,958,950	–	–	–
Client 2	State enteties	–	–	–	1,838,815	–	–	–
Client 3	Agriculture and food industry	–	–	–	25,459,305	–	–	–
Client 6	Finance	8,440,141	–	–	–	2,979,775	–	–
Client 12	Finance	–	2,262,063	–	–	–	–	–
Client 4	Extractive industry	–	–	9,436,665	–	–	–	–
Client 5	Extractive industry	–	–	1,080,080	–	–	–	–
Client 8	Trade	–	–	538,455	851,219	–	–	1,538,646
Client 9	Trade	–	–	–	–	–	–	722,621
Client 11	Mechanical engineering	–	–	2,002,138	–	–	–	472,454
Client 10	Power engineering	–	–	1,543,572	–	–	–	–
Client 13	Road construction	–	–	1,053,974	–	–	–	–
Other		–	–	560,884	6,828,540	–	238,378	–

For the twelve-month period ended 31 December 2016, the Bank recorded UAH 2,496,386 thousand of interest income (for the twelve month period ended 31 December 2015: UAH 2,332,037 thousand), including interest income from operations with the NBU deposit certificates with maturity up to 90 days – UAH 399,002 thousand (for the twelve-month period 2015: UAH 247,309 thousand) and UAH 2,141,161 thousand of interest expenses (for the twelve months period ended 31 December 2015: UAH 2,628,673 thousand) from significant transactions with the government-related entities.

As at 31 December 2016 and 2015, the Bank's investments in debt securities issued by the government or the government-related corporate entities were as follows:

	31 December 2016	*31 December 2015*
Available-for-sale investment securities	48,192,169	39,562,151
Investment securities designed at fair value through profit or loss	24,064,110	9,924,610
Investment securities held to maturity	139,098	230,912

Carrying value of government bonds, which are included in investment securities designated at fair value through profit or loss and investment securities available for sale is disclosed in Note 9.

For the twelve-month period ended 31 December 2016, the Bank recorded UAH 4,346,780 thousand (for the twelve-month period 2015: UAH 3,371,185 thousand) of interest income from transactions with government bonds, and UAH 440,458 thousand from transactions with other investment securities (for the twelve-month period 2015: UAH 816,307 thousand) of interest income.

30. Capital adequacy

The Bank pro-actively manages its exposures to ensure it that it maintains an adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business activities and maximise the value to the shareholder.

(thousands of Ukrainian hryvnia, unless otherwise stated)

30. Capital adequacy (continued)

The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

NBU capital adequacy ratio

In 2015, the NBU performed diagnostic study of 20 largest banks of Ukraine, including the Bank. Separate requirements for the capital adequacy ratio were applied for the banks that took part in diagnostic study of the NBU. These requirements are approved by the NBU based on the results of diagnostic studies and remediation plans, but in any case, upon the approval, the ratio shall not be: lower than 5% staring 1 February 2016, and reach 7% as at 1 February 2018 and 10% as at 1 January 2016. During 2016 and as at 31 December 2016 the Bank complied with these requirements.

As at 31 December the Bank's regulatory capital adequacy ratio on this basis was as follows:

	31 December 2016	*31 December 2015*
Main capital	3,908,734	1,141,141
Additional capital, calculated	4,589,478	8,709,529
Additional capital included in the calculation of total capital (limited to main capital)	3,908,734	1,141,141
Total capital	7,817,468	2,282,282
Risk weighted assets	79,030,619	94,789,952
Capital adequacy ratio	9.89%	2.41%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses and Tier 2 capital (Additional capital), consisting of provisions against highest quality credit operations, asset revaluation reserve, current year profit, subordinated debt and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratios, computed in accordance with the Basel Capital Accord 1988 were as follows:

	31 December 2016	*31 December 2015*
Tier 1 capital	4,634,931	(3,725,162)
Tier 2 capital, calculated	3,042,801	664,823
Tier 2 capital included in the calculation of total capital	3,042,801	–
Total capital	7,677,732	(3,725,162)
Risk weighted assets	79,994,257	89,889,011
Tier 1 capital ratio	5.8%	-4.14%
Total capital ratio	9.6%	-4.14%

(thousands of Ukrainian hryvnia, unless otherwise stated)

31. Subsequent events

In February 2017, according to the Resolution of the Cabinet of Ministers of Ukraine No 54 dated 1 February 2017 the Bank’s share capital was increased by UAH 3,022,000 thousand through the issue of 2,066,975 new shares with nominal value of UAH 1,462.04 each with 100% of these shares kept by the State.

The Government of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 3,022,001 thousand with 10-year maturity and interest rate of 6% p.a.

In March 2017, according to the Resolution of the Cabinet of Ministers of Ukraine No 123 dated 6 March 2017 the Bank’s share capital was increased by UAH 4,700,001 thousand through issue of 3,214,687 new shares with nominal value of UAH 1,462.04 each with 100% of these shares kept by the State.

The Government of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state indexed bonds with the nominal value of UAH 4,700,001 thousand with 15-year maturity and interest rate of 9% p.a.

JSC "The State Export-Import Bank of Ukraine" Annual Consolidated Financial Statements for the year ended 31 December 2015 and independent auditor's report

Joint Stock Company
“The State Export-Import Bank of Ukraine”
Annual Consolidated Financial Statements

for the year ended 31 December 2015
and Independent Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

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This version of our report is a translation from the original, which was prepared in Ukrainian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position (consolidated balance sheet) as at 31 December 2015 and the consolidated statement of profit and loss (consolidated income statement), consolidated statement of comprehensive income, consolidated statement of changes in equity (consolidated statement of equity) and consolidated statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw your attention to Note 2, Note 22 and Note 32 to the consolidated financial statements. The operations of the Group, and those of other entities in Ukraine, have been affected and may continue to be affected for the foreseeable future by the continuing political and economic uncertainties in Ukraine. Our opinion is not qualified in respect of this matter.

LLC AF PricewaterhouseCoopers (Audit)

05 April 2016
Kyiv, Ukraine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET)

As at 31 December 2015
(thousands of Ukrainian Hryvnia)

	Notes	*31 December 2015*	*31 December 2014*
Assets			
Cash and cash equivalents	6	24,241,179	16,790,414
Due from credit institutions	7	4,083,743	1,967,651
Loans to customers	8	55,099,903	49,973,792
Investment securities:	9		
- designated at fair value through profit or loss		9,924,610	6,882,115
- available-for-sale		41,191,570	40,426,199
- held-to-maturity		230,912	820,866
Tax assets	13	293,122	691,771
Investment property	10	1,566,942	1,986,087
Property and equipment	11	2,170,944	2,251,643
Intangible assets	12	17,584	14,078
Deferred income tax asset	13	1,730,750	1,307,279
Other assets	15	797,253	418,288
Total assets		**141,348,512**	**123,530,183**
Liabilities			
Amounts due to the National Bank of Ukraine	16	2,979,775	5,248,980
Amounts due to credit institutions	17	19,298,870	16,556,455
Amounts due to customers	18	79,317,943	61,995,129
Eurobonds issued	19	33,122,294	21,764,479
Current income tax liabilities	13	-	25,181
Subordinated debt	20	9,375,369	6,140,035
Provisions for other losses	14	22,213	400
Other liabilities	15	292,387	223,946
Total liabilities		**144,408,851**	**111,954,605**
Equity			
Share capital	21	21,689,042	16,689,042
Unregistered contributions to share capital	21	-	5,000,000
Revaluation reserves	21	664,823	1,255,595
Accumulated deficit		(25,577,130)	(11,531,985)
Reserve and other funds	21	162,926	162,926
Total equity	2, 32	**(3,060,339)**	**11,575,578**
Total equity and liabilities		**141,348,512**	**123,530,183**

Authorised for release and signed

05 April 2016

Chairman of the Board **O.V. Hrytsenko**

Head of Accounting and Reporting Department – Chief Accountant **N.A. Potemska**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (CONSOLIDATED INCOME STATEMENT)

for the year ended 31 December 2015
(thousands of Ukrainian Hryvnia)

	Notes	*2015*	*2014*
Interest income			
Loans to customers		7,333,783	5,912,411
Investment securities other than designated at fair value through profit or loss		4,696,434	3,685,254
Due from credit institutions		642,360	165,357
Amounts due from the National Bank of Ukraine		247,309	23,707
		12,919,886	9,786,729
Investment securities designed at fair value through profit or loss		291,524	309,378
		13,211,410	**10,096,107**
Interest expense			
Amounts due to customers		(5,218,921)	(3,969,626)
Eurobonds issued		(2,795,722)	(1,445,808)
Amounts due to the National Bank of Ukraine		(904,487)	(1,090,596)
Amounts due to credit institutions		(1,013,118)	(387,246)
Subordinated debt		(885,991)	(525,277)
		(10,818,239)	**(7,418,553)**
Net interest income		**2,393,171**	**2,677,554**
Allowance for loan impairment charge	7,8	(10,326,225)	(11,430,955)
Net interest margin after allowance for loan impairment		**(7,933,054)**	**(8,753,401)**
Commission income		1,102,590	598,170
Commission expense		(392,045)	(168,359)
Commission income, net	23	**710,545**	**429,811**
Net profit from investment securities designated at fair value through profit and loss		3,886,182	3,340,677
Net gains/(losses) from available-for-sale investment securities:			
- dealing		32,871	13,944
- losses on impairment		(2,955,590)	(493,418)
Net gains/(losses) from foreign currencies:			
- dealing		878,047	746,076
- translation differences		(6,823,654)	(4,292,128)
Net gains/(losses) from precious metals:			
- dealing		9,592	10,457
- revaluation		(13,874)	20,297
Other income		105,603	70,848
Non-interest income		**(4,880,823)**	**(583,247)**
Personnel expenses	24	(864,949)	(899,960)
Depreciation and amortisation	11,12	(105,939)	(104,776)
Other operating expenses	24	(965,679)	(2,497,486)
Loss from changes in terms of loans to customers		(18,633)	(53,278)
(Charge to) / reversal of other impairment and provisions	14	(11,961)	20,564
Non-interest expense		**(1,967,161)**	**(3,534,936)**
Loss before tax		**(14,070,493)**	**(12,441,773)**
Income tax credit	13	6,721	1,192,456
Loss for the year		**(14,063,772)**	**(11,249,317)**

Authorised for release and signed

05 April 2016

Chairman of the Board **O.V. Hrytsenko**

Head of Accounting and Reporting Department – Chief Accountant **N.A. Potemska**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015
(thousands of Ukrainian Hryvnia)

	Notes	*2015*	*2014*
Loss for the year		**(14,063,772)**	**(11,249,317)**
Other comprehensive income:			
Other comprehensive income to be reclassified through the consolidated statement of profit and loss (the consolidated income statement):			
Net (losses)/gains on investment securities available-for-sale	21	(572,145)	220,000
Income tax relating to components of other comprehensive income	13,21	-	(41,191)
Other comprehensive income not to be reclassified through the consolidated statement of profit and loss (the consolidated income statement)			
Revaluation of property	21	-	169,294
Income tax relating to components of other comprehensive income	13,21	-	(34,219)
Other comprehensive (loss)/income for the year, net of tax		**(572,145)**	**313,884**
Total comprehensive loss for the year		**(14,635,917)**	**(10,935,433)**

Authorised for release and signed

05 April 2016

Chairman of the Board **O.V. Hrytsenko**

Head of Accounting and Reporting Department – Chief Accountant **N.A. Potemska**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONSOLIDATED STATEMENT OF EQUITY)

For the year ended 31 December 2015
(thousands of Ukrainian Hryvnia)

	Share capital	*Unregistered contributions to share capital*	*Revaluation reserve*	*Accumulated deficit*	*Reserve and other funds*	*Total capital*
As at 1 January 2014	**16,514,051**	**-**	**974,461**	**(28,394)**	**151,203**	**17,611,321**
Loss for the year	-	-	-	(11,249,317)	-	(11,249,317)
Other comprehensive income for the year	-	-	313,884	-	-	313,884
Total comprehensive income/(loss) for the year	**-**	**-**	**313,884**	**(11,249,317)**	**-**	**(10,935,433)**
Depreciation of revaluation reserve, net of tax (Note 21)	-	-	(16,234)	16,234	-	-
Revaluation reserve on property transferred to investment property, net of tax (Note 21)	-	-	(16,510)	16,510	-	-
Realised revaluation result transferred to accumulated deficit	-	-	(6)	6	-	-
Distribution of part of profit to the shareholder (Note 21)	-	-	-	(100,310)	-	(100,310)
Allocation of profits to reserve and other funds	-	-	-	(11,723)	11,723	-
Increase in share capital (Note 21)	174,991	5,000,000	-	(174,991)	-	5,000,000
As at 31 December 2014	**16,689,042**	**5,000,000**	**1,255,595**	**(11,531,985)**	**162,926**	**11,575,578**
Loss for the year	-	-	-	(14,063,772)	-	(14,063,772)
Other comprehensive loss for the year	-	-	(572,145)	-	-	(572,145)
Total comprehensive loss for the year	**-**	**-**	**(572,145)**	**(14,063,772)**	**-**	**(14,635,917)**
Depreciation of revaluation reserve, net of tax (Note 21)	-	-	(18,627)	18,627	-	-
Increase in share capital (Note 21)	5,000,000	(5,000,000)	-	-	-	-
As at 31 December 2015	**21,689,042**	**-**	**664,823**	**(25,577,130)**	**162,926**	**(3,060,339)**

Authorised for release and signed

05 April 2016

Chairman of the Board **O.V. Hrytsenko**

Head of Accounting and Reporting Department – Chief Accountant **N.A. Potemska**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015
(direct method)
(thousands of Ukrainian Hryvnia)

	Notes	*2015*	*2014*
Cash flows from operating activities			
Interest received		11,552,900	8,762,270
Interest paid		(10,583,546)	(7,039,741)
Commissions received		906,363	599,308
Commissions paid		(389,930)	(168,359)
Result from dealing in foreign currencies and precious metals		887,639	756,533
Personnel expenses		(842,730)	(913,030)
Other operating income		105,334	70,681
Other operating and administrative expenses		(497,409)	(602,439)
Cash flow from operating activities before changes in operating assets and liabilities		**1,138,621**	**1,465,223**
Net (increase)/decrease in operating assets:			
Due from credit institutions		(1,580,103)	(491,637)
Deposit with the National Bank of Ukraine		-	755,193
Loans to customers		3,249,513	721,660
Other assets		(417,117)	79,662
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		(1,590,752)	347,740
Amounts due to the National Bank of Ukraine		(2,221,039)	(4,356,529)
Amounts due to customers		(2,207,107)	840,610
Other liabilities		112,608	65,435
Net cash flows from operating activities paid before income tax		**(3,515,376)**	**(572,643)**
Income tax paid		(43,282)	(167,143)
Net cash flows from operating activities paid		**(3,558,658)**	**(739,786)**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		19,015,540	31,279,319
Purchase of investment securities		(9,814,312)	(23,689,358)
Dividends received		580	594
Purchases of property, equipment and intangible assets		(35,275)	(134,575)
Proceeds from sale of property and equipment		84	461
Purchases of investment property		-	(6,937)
Proceeds from sale of investment property		715	14,705
Net cash flows from investing activities		**9,167,332**	**7,464,209**
Cash flows from financing activities			
Distribution of part of profit to the shareholder		-	(100,310)
Redemption of Eurobonds issued		-	(2,385,050)
Proceeds from borrowings from credit institutions		1,021,013	4,387,084
Repayment of borrowings from credit institutions		(4,511,602)	(4,296,333)
Net cash flows used in financing activities		**(3,490,589)**	**(2,394,609)**
Effect of exchange rates changes on cash and cash equivalents		5,332,680	4,139,530
Net change in cash and cash equivalents		**7,450,765**	**8,469,344**
Cash and cash equivalents, 1 January		**16,790,414**	**8,321,070**
Cash and cash equivalents, 31 December	6	**24,241,179**	**16,790,414**

Authorised for release and signed
05 April 2016
Chairman of the Board **O.V. Hrytsenko**

Head of Accounting and Reporting Department – Chief Accountant **N.A. Potemska**

1. Principal activities

Joint Stock Company "The State Export-Import Bank of Ukraine" (hereinafter — "UkrEximBank" or the "Bank") was founded in 1992. UkrEximBank operates under banking licence No.2 dated 5 October 2011 and a general licence to conduct foreign currency transactions No. 2 dated 5 October 2011.

As at 31 December 2015 and 2014, 100% of UkrEximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

UkrEximBank's head office is in Kyiv at 127 Gorky Str. It has 27 branches and 75 operating outlets (31 December 2014: 27 branches and 93 operating outlets) and 2 representative offices located in London and New-York. UkrEximBank and its branches form a single legal entity.

Traditionally the main focus of UkrEximBank's operations was the servicing of various export-import transactions. Currently UkrEximBank's customer base is diversified and includes a number of large industrial and State owned enterprises. UkrEximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and internationally, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the main activities of UkrEximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. UkrEximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The Bank's aim is to provide financing to investment projects (public and private) supporting the development of high value-adding industries and to manufacturers of export-oriented and import-substituting products, to raise foreign credit facilities to improve the economic development of Ukraine (including implementation of energy-saving technologies), to service foreign economic operations of its customers and to act as a financial agent on behalf of the Ukrainian Government.

These annual consolidated financial statements comprise UkrEximBank and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the trading and leasing business.

"Eximleasing" Ltd, a 100% owned subsidiary was founded in 2006 and registered in Ukraine.

2. Basis of preparation of financial statements

General information

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies, for example investment securities available-for-sale, investment securities designated at fair value through profit or loss, buildings and investment property have been measured at fair value.

These annual consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH") unless otherwise indicated.

Going concern. Management prepared these consolidated financial statements on a going concern basis. Going concern assumption is supported by strong liquidity position of the Bank, support provided by the government (refer to Note 21), capitalisation program and three-year business plan, prepared by management.

Ukreximbank incurred loss of UAH 14,063,772 thousand in 2015 mainly due to significant impairment charge of UAH 13,293,776 thousand and loss from translation differences on operations in foreign currencies of UAH 6,823,654 thousand, which is partially offset by net profit from investment securities designated at fair value through profit and loss of UAH 3,886,182 thousand.

Impairment provision increase was caused by the recent economic crisis in Ukraine, especially by loss of certain regions (Crimea, "ATO zone"), impact of hryvnia depreciation on borrowers with loans in foreign currencies. Loss from translation differences in foreign currencies was caused by significant devaluation of Ukrainian hryvnya in 2015 (from UAH 15.7686 for USD 1 as at 31 December 2014 to UAH 24.0007 for USD 1 as at 31 December 2015).

Ukrainian government being the owner of the Bank demonstrates readiness to provide support in form of additional contributions to the Bank's capital and actually made it in the amount of UAH 5 bln in the end of 2014 (registered in March 2015) and in the amount of UAH 9.3 bln in January 2016. According to the State Banks Strategy announced in February 2016 by Ukrainian government, Ukreximbank will remain the state-owned system-bank for at least next several years.

In addition, the Bank prepared and agreed with the Government and the NBU capitalisation plan till the end of 2018, which contains increase of share capital already done in January 2016 and further increase till the end of 2018. Accordingly, at the time of issue of these financial statements the Bank complies with the capitalisation plan and the NBU capital requirements.

Regulatory capital adequacy ratio of the Bank was 2.41% as at 31 December 2015 and raised to 10.47% as at 1 February 2016 after additional share capital contribution of UAH 9.3 bln. Capital adequacy ratio according to Basel requirements was -4.14% as at 31 December 2015. According to the NBU Regulation #260 dated 15/04/2015 the Bank as well as all top-20 Ukrainian banks should have positive equity till 1 April 2016, capital adequacy (N2) not lower than 5% till 1 September 2016, N2 not lower than 7% till 1 January 2018 and 10% till 1 January 2019.

The Bank has sufficient liquidity to fulfil its obligations within a foreseeable future: UAH 24.2 billion of cash and cash equivalents and UAH 51.1 billion of investment securities except held to maturity (UAH 47.1 bln of which are government securities). Coverage of the Bank's obligations with maturity dates within one year, in particular, due to banks and due to customers balances, by these liquid assets is 92%, although such outflow is very unlikely. The Bank has positive liquidity gap within 1 year of UAH 17 bln as at 31 December 2015.

Management of the Bank is confident about the ability of the Bank to operate as a going concern in the long run and about renewed profitability of its operations in future. The losses incurred during the last two years should be considered rather as "one-off" event caused by the political and economical instability in Ukraine.

3. Summary of accounting policies

Changes in accounting policies

The following amended standards became effective for the Bank from 1 January 2015, but did not have any material impact on the Bank:

- Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

Basis of consolidation

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Bank controls because the Bank (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Bank has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Bank may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Bank assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Bank from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Bank, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Bank measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Bank's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Bank's equity.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are initially recognised, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits itself to purchase an asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets, designated at fair value through profit or loss at inception, are included in the item 'Investment Securities' of the statement of financial position (balance sheet). Derivatives are classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated statement of profit and loss (the consolidated income statement).

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

If the Bank is unable to determine the value of the embedded derivative separately at the acquisition date or at the end of the next financial reporting period, these financial assets are accounted at fair value with changes through profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are measured at amortised cost. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and receivables are not entered into with the intention of either immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of profit and loss (the consolidated income statement). However, interest calculated using the effective interest method is recognised in the consolidated statement of profit and loss (the consolidated income statement).
Investments in equity instruments that do not have a quoted market price in an active market and if their fair value cannot be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

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.

The fair value for financial instruments traded in active market at the reporting date is based on publicly available market prices or direct dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading ceases to be held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category into one of the following:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets originally held for trading may be reclassified to available-for-sale or held to maturity categories only in exceptional circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss (consolidated income statement) is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as appropriate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, excluding restricted mandatory reserves, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

Precious metals

Gold and other precious metals are recorded at fair value, which approximate the NBU bid prices and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as revaluation differences from precious metals in the consolidated statement of profit and loss (the consolidated income statement).

Repurchase and reverse repurchase agreements and securities lending

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

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

Promissory notes

Promissory notes purchased are included in available-for-sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments including swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are derived based on quoted market prices or valuation models that take into account current and contractual market prices of the underlying instruments and any other relevant factors. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit and loss (the consolidated income statement) as net gains/ (losses) from foreign currencies and precious metals dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, debt securities issued, Eurobonds issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position (the consolidated balance sheet) and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Leases

i. Finance – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is recognised based on a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating – Bank as a lessee

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

iii. Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position (the consolidated balance sheet) according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset ('an incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, an increased probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement). Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated impairment allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the impairment allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of profit and loss (the consolidated income statement).

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

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

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

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement).

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated statement of profit and loss (the consolidated income statement).

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as amounts due from credit institutions and loans to customers. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of profit and loss (the consolidated income statement). If, in a subsequent year the fair value of a debt instrument increases and the increase is objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit and loss (the consolidated income statement), the impairment loss is reversed through the consolidated statement of profit and loss (the consolidated income statement).

Renegotiated loans

Where possible, the Bank seeks to renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such renegotiation is as follows:

- If the currency of the loan has been changed the old loan is derecognised and a new loan is recognised.
- If the loan renegotiation is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower, the loan is not recognised as impaired.
- If the loan is impaired after renegotiation, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before renegotiation is included in the impairment charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to be met. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Asset management

The Bank acts as an asset manager in respect of certain funds related to construction financing. The Bank acts as an agent in these arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management industry. Accordingly, the Bank does not incur any liability relating to the funds under management. These funds under management do not comprise legal entities under the laws of Ukraine and the management of these funds is administered by the Bank. The funds are held in current accounts in the Bank until such time as they are invested in eligible assets which meet the investment requirements of these funds.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the fee received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortised fee and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit and loss (the consolidated income statement). The premium received is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the life of the guarantee.

Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded in other operating expenses in the consolidated statement of profit and loss (the consolidated income statement).

Property and equipment

Equipment is carried at cost or cost restated for effects of hyperinflation (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Specifically, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The revalued amount of an asset as at the revaluation date equals its fair value and the accumulated depreciation equals zero. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings/(accumulated deficit).

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

	Years
Buildings	15-75 years
Furniture and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (refurbishment costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property in similar locations and categories.

Assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the prospective sale is deemed feasible.

The prospective sale is deemed feasible if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan has been initiated. Furthermore, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

Provision

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other benefit obligations

The Bank has contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Bank has no other post-retirement benefits or significant other compensated benefits requiring accrual.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position (the consolidated balance sheet) but are disclosed unless the possibility of any future outflow is considered remote. A contingent asset is not recognised in the consolidated statement of financial position (the consolidated balance sheet) but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Commission income

The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees arising for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party — such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit and loss (the consolidated income statement) as gains less losses from foreign currencies— translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2015 and 2014 were UAH 24.007 and UAH 15.7686 to 1 US dollar and UAH 26.2231 and UAH 19.2329 to 1 euro, respectively.

Future changes in accounting policies

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The standard is expected to have a significant impact on the Bank's loan impairment provisions. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Bank is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank is currently assessing the impact of the amendment on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).

- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

4. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 1,449.8 million and UAH 4,084.8 million (2014: UAH 844.5 million and UAH 2,572.7 million), respectively. The Bank increased or decreased by 10% probability of default (PD) for each individual customer and calculated deviation (increase or decrease) of the impairment provision compared to the actual provision in the calculation of the above provision sensitivity to changes in actual loss experience compared to the estimated. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred income tax assets

The recognised deferred tax asset in the amount of UAH 1,730,750 thousand (31 December 2014: UAH 1,307,279 thousand) represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a 3-year business plan prepared by management and adjusted by differences between tax and financial accounting, and the program of capitalisation. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the management expectations include stabilisation of the economy of Ukraine together with the recovery of the whole banking sector's profitability in 2016-2017, as well as moderate growth in loan portfolio and reduced loan loss provisions charges due to the expected improvement in the economy. Taking into account planned future profits for 2017-2018 and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

(thousands of Ukrainian hryvnia, unless otherwise stated)

5. Segment information

For management purposes, the Bank recognizes the following operating segments (business units):

Retail banking	Business Unit focussing on servicing retail customers on the full list of products, and selling products that are mainly in standardized form (as per the tariffs approved and the standard procedures) and generally do not require individual approach.
Corporate banking	Business Unit focussing on corporate customers selling products that require individual approach and are mainly offered to corporate clients.
Inter-bank and investments business	Business Unit focussing on the provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.

The Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured taking into account income and expenses from other segments.

Unallocated amounts include:

- Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's TOP management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of TOP management;
- The result of the revaluation of open currency position;
- The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

During the twelve months ended 31 December 2015 and 2014, the Bank had revenues from transactions with a single external customer that accounted for more than 10% of the total income of the Bank, namely UAH 3,371,185 thousand (2014: UAH 2,111,974 thousand). Revenue from transactions with the external customer is reflected in the segment "Inter-bank and investments business".

Analysis of income of the Bank by banking products and services is presented in the profit and loss (interest income and expenses) and Note 23 (Fee and commission income and expenses).

Geografical information.

Most revenues and capital expenditure relates to Ukraine. The Bank has no significant revenue from other contries. Geographical analysis of assets and liabilities is disclosed in Note 25.

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2015:

	Retail banking	***Corporate banking***	***Interbank and investments business***	***Unallocated***	***Total***
External					
Interest income	393,057	6,971,386	5,846,967	-	13,211,410
Commission income	424,391	658,165	20,034	-	1,102,590
Other income	19,083	54,260	20,971	11,289	105,603
Net gains from transactions with foreign currencies	237,507	172,539	652,525	-	1,062,571
Net gains from operations with banking metals	458	-	8,849	-	9,307
Gain from investment securities available-for-sale	-	-	32,871	-	32,871

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
Gain from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	-	3,886,182	3,886,182
Reversal of provisions for covering loans	-	-	400,401	-	400,401
Reversal of provisions for impairment of other assets and for covering other losses	-	94,029	435,055	-	529,084
Income from other segments	**3,386,431**	**3,166,995**	**6,126,478**	**(12,679,904)**	**-**
Total income	**4,460,927**	**11,117,374**	**13,544,151**	**(8,782,433)**	**20,340,019**
Interest expenses	(2,681,316)	(2,531,140)	(5,605,783)	-	(10,818,239)
Commission expense	(120,668)	(260,753)	(10,573)	(51)	(392,045)
Loan impairment charge	(221,803)	(10,504,823)	-	-	(10,726,626)
Loss from operations with foreign currencies	-	-	-	(7,008,178)	(7,008,178)
Loss from operations from banking metals	-	-	-	(13,589)	(13,589)
Personnel expenses	(412,835)	(260,327)	(79,038)	(112,749)	(864,949)
Depreciation and amortisation	(69,431)	(25,447)	(4,355)	(6,706)	(105,939)
Other operating expenses	(359,124)	(456,452)	(35,162)	(114,941)	(965,679)
Loss from investment securities available-for-sale	-	(852,822)	(2,102,768)	-	(2,955,590)
Charge for impairment of other assets and for covering other losses	(29,504)	-	-	(511,541)	(541,045)
Loss from changes in terms of loans to customers	-	(18,484)	(149)	-	(18,633)
Expenses from other segments	(328,477)	(7,469,872)	(6,062,729)	13,861,078	**-**
Segment results	**237,769**	**(11,262,746)**	**(356,406)**	**(2,689,110)**	**(14,070,493)**
Income tax credit					6,721
Loss for the period					**(14,063,772)**
Assets and liabilities as at 31 December 2015					
Segment assets	4,746,994	56,142,419	78,222,914		139,112,327
Unallocated assets				2,236,185	2,236,185
Total assets					**141,348,512**
Segment liabilities	32,198,018	47,560,991	64,580,236		144,339,245
Unallocated liabilities				69,606	69,606
Total liabilities					**144,408,851**
Other segment information					
Capital expenditure	(28,582)	(8,220)	(1,470)	(2,264)	(40,536)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2014:

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
External					
Interest income	213,363	5,845,662	4,037,082	-	10,096,107
Commission income	329,686	250,473	18,011	-	598,170
Other income	6,721	32,196	25,464	6,467	70,848
Net gains from transactions with foreign currencies	139,116	1	580,297	-	719,414
Net gains from operations with banking metals	6,081	-	17,670	7,003	30,754

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Retail banking	*Corporate banking*	*Interbank and investments business*	*Unallocated*	*Total*
Gain from investment securities available-for-sale	-	-	13,944	-	13,944
Gain from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	8,747	3,331,930	3,340,677
Reversal of provisions for impairment of other assets and for covering other losses	8,442	-	17,742	-	26,184
Income from other segments	**2,705,490**	**2,162,877**	**3,803,915**	**(8,672,282)**	**-**
Total income	**3,408,899**	**8,291,209**	**8,522,872**	**(5,326,882)**	**14,896,098**
Interest expenses	(2,185,457)	(1,755,055)	(3,478,041)	-	(7,418,553)
Commission expense	(92,829)	(64,021)	(11,261)	(248)	(168,359)
Loan impairment charge	(262,507)	(11,071,928)	(96,520)	-	(11,430,955)
Loss from operations with foreign currencies	-	(281,102)	-	(3,984,364)	(4,265,466)
Personnel expenses	(415,876)	(272,731)	(89,051)	(122,302)	(899,960)
Depreciation and amortisation	(68,172)	(26,179)	(4,168)	(6,257)	(104,776)
Other operating expenses	(732,868)	(1,300,902)	(225,797)	(237,919)	(2,497,486)
Loss from investment securities available-for-sale	-	(476,057)	(11,784)	(5,577)	(493,418)
Charge for impairment of other assets and for covering other losses	-	(1,838)	-	(3,782)	(5,620)
Loss from changes in terms of loans to customers	-	(53,278)	-	-	(53,278)
Expenses from other segments	(238,110)	(6,127,910)	(3,978,334)	10,344,354	**-**
Segment results	**(586,920)**	**(13,139,792)**	**627,916**	**657,023**	**(12,441,773)**
Income tax credit					1,192,456
Loss for the period					**(11,249,317)**
Assets and liabilities as at 31 December 2014					
Segment assets	4,479,281	51,722,633	65,105,665		121,307,579
Unallocated assets				2,222,604	2,222,604
Total assets					**123,530,183**
Segment liabilities	27,778,522	34,471,802	49,500,438		111,750,762
Unallocated liabilities				203,843	203,843
Total liabilities					**111,954,605**
Other segment information					
Capital expenditure	(66,415)	(23,156)	(4,015)	(6,028)	(99,614)

The major part of the fair value gain from investment securities designated at fair value through profit or loss for twelve months of 2015 is attributable to revaluation of government bonds indexed according to changes in the foreign exchange rate.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2015	*31 December 2014*
Current accounts with other credit institutions	9,593,295	10,598,929
Deposits certificates of the National Bank of Ukraine up to 90 days	6,255,946	-
Overnight deposits with other credit institutions	4,265,831	1,300,449

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2015	*31 December 2014*
Current account with the National Bank of Ukraine (other than restricted mandatory reserves)	2,184,195	2,128,691
Cash on hand	1,109,948	934,393
Time deposits with credit institutions up to 90 days	831,964	1,827,952
Cash and cash equivalents	**24,241,179**	**16,790,414**

As at 31 December 2015 included in current accounts with other credit institutions is UAH 8,863,054 thousand, placed on current accounts with five OECD banks (31 December 2014: UAH 10,348,146 thousand, placed on current accounts with five OECD and CIS banks). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.
As at 31 December 2015 overnight deposits represent overnight deposits placed with OECD banks. These placements earn market interest rates. UAH 4,265,831 thousand was placed with one OECD bank (31 December 2014: UAH 1,300,449 thousand was placed with one OECD bank).

Financing transactions that did not require the use of cash and cash equivalents, and were excluded from the statement of cash flows are as follows:

	2014
Non-cash financing activities	
Increase of share capital through capitalisation of retained earnings	174,991
Issue of ordinary shares in exchange for government securities	5,000,000
Non-cash financing activities	**5,174,991**

Since August 2014 Ukrainian banks are required to keep mandatory reserves on a correspondent account with the NBU. Since January 2015 the amount of mandatory reserves that should be kept at the beginning of each operational day on a correspondent account with the NBU should be equal to 40% from the reserves base (the average arithmetical sum of funds, that is calculated for the period of the determination in accordance with the ratio of the mandatory reserves for the period), that is calculated for the certain period of allowance. Since January 2015 Ukrainian banks have been allowed to cover the mandatory reserve balance with 50 % of cash on hand, beginning from March 2015 – 100% cash on hand, beginning from November 2015 – 75% cash on hand and with 100% of placements on a correspondent account opened with PJSC "Clearing Centre". As at 31 December 2014, Ukrainian state bonds with a carrying value of UAH 30,898,854 thousand were used by the Bank to cover its NBU mandatory reserve requirement (Note 9).

Since August 2008, Ukrainian banks were required to deposit 20% of funds raised from non-residents in foreign currency for a period of less than 183 days on a separate account with the NBU, in the form of non-interest bearing cash deposit. Starting from August 2014 the reserve requirement for funds raised from non-residents in foreign currency is set by the NBU at 0%. As at 31 December 2015 no funds was placed by the Bank on this account.

Since 2009, Ukrainian banks were required to deposit an amount equivalent to the amount of impairment allowance (defined in accordance with the NBU regulations) created for loans granted in foreign currencies to borrowers with no foreign currency income, on a separate account with the NBU in the form of non-interest bearing cash deposit. Starting from February 2014 the NBU temporarily allowed not to keep such reserves on a separate account with the NBU.

As at 31 December 2015 and 2014 the Bank meets all the NBU's mandatory reserve requirements.

7. Due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2015	*31 December 2014*
Loans and deposits	4,525,511	1,960,403
Current accounts with other credit institutions in precious metals	106,968	116,908
Other amounts due from credit institutions	10	9,323
	4,632,489	**2,086,634**
Less – Allowance for impairment	(548,746)	(118,983)
Due from credit institutions	**4,083,743**	**1,967,651**

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 31 December 2015, loans and deposits due from credit institutions include UAH 229,419 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (31 December 2014: UAH 130,417 thousand).

The movements in allowance for impairment of amounts due from credit institutions are as follows:

	Loans and deposits
At 1 January 2014	**11,542**
Charge	96,520
Translation differences	10,921
At 31 December 2014	**118,983**
Charge	415,941
Translation differences	13,822
At 31 December 2015	**548,746**

8. Loans to customers

Loans to customers comprise:

	31 December 2015	*31 December 2014*
Commercial loans	95,509,668	72,818,138
Overdrafts	273,354	304,580
Promissory notes	21,545	16,001
Financial lease receivables	143,547	22,182
	95,948,114	**73,160,901**
Less– Allowance for impairment	(40,848,211)	(23,187,109)
Loans to customers	**55,099,903**	**49,973,792**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 01 January 2015	**23,164,123**	**5,444**	**17,238**	**304**	**23,187,109**
Charge for the year	9,891,540	18,101	498	145	9,910,284
Recoveries	5,475	-	-	-	5,475
Amounts written-off	(9,739)	-	-	-	(9,739)
Translation differences	7,754,711	371	-	-	7,755,082
At 31 December 2015	**40,806,110**	**23,916**	**17,736**	**449**	**40,848,211**
Individual impairment	38,802,056	4,237	17,736	-	38,824,029
Collective impairment	2,004,054	19,679	-	449	2,024,182
	40,806,110	**23,916**	**17,736**	**449**	**40,848,211**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**57,213,119**	**20,558**	**27,147**	**-**	**57,260,824**

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 01 January 2014	**8,711,816**	**6,684**	**10,608**	**29,621**	**8,758,729**
Charge/(reversal) for the year	11,358,590	(1,468)	6,630	(29,317)	11,334,435
Recoveries	39,057	-	-	-	39,057
Amounts written-off	(1,316,710)	-	-	-	(1,316,710)
Translation differences	4,371,370	228	-	-	4,371,598
At 31 December 2014	**23,164,123**	**5,444**	**17,238**	**304**	**23,187,109**

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Commercial loans	Overdrafts	Financial lease receivables	Promissory notes	Total
Individual impairment	21,696,102	1,559	10,451	-	21,708,112
Collective impairment	1,468,021	3,885	6,787	304	1,478,997
	23,164,123	**5,444**	**17,238**	**304**	**23,187,109**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**29,693,265**	**10,425**	**10,452**	**-**	**29,714,142**

Individually impaired loans

As at 31 December 2015 interest income on loans, for which individual impairment allowances have been recognised, amounts to UAH 3,481,235 thousand (2014: UAH 1,225,316 thousand).

In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities,
- For commercial lending - charges over real estate properties, inventory and trade receivables,
- For retail lending - mortgages over residential properties and vehicles.

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2015, loans to customers with a carrying value of UAH 5,088,445 thousand are pledged as collateral under loans received from the NBU (31 December 2014: UAH 6,899,998 thousand) (Note 16).

Concentration of loans to customers

As at 31 December 2015, the Bank has a concentration of loans represented by UAH 39,944,601 thousand due from the ten largest borrowers (41.63% of gross loan portfolio) (31 December 2014: UAH 28,336,489 thousand or 38.73%). An allowance of UAH 15,330,275 thousand has been recognised against these loans (31 December 2014: UAH 8,181,234 thousand).

Loans and advances have been extended to the following types of customers:

	31 December 2015	31 December 2014
Private entities	76,228,940	57,196,728
State entities	18,158,597	14,408,725
Individuals	1,303,048	1,001,516
Municipal and utility entities	257,529	553,932
	95,948,114	**73,160,901**

Loans are made principally within Ukraine to companies of the following industry sectors:

	31 December 2015	%	31 December 2014	%
Agriculture and food industry	16,779,746	17.5	12,247,792	16.7
Trade	11,303,278	11.8	8,817,828	12.1
Extractive industry	10,984,005	11.4	7,458,774	10.2
Real estate	8,846,650	9.2	5,361,050	7.3

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2015	*%*	*31 December 2014*	*%*
Chemical industry	8,827,769	9.2	6,339,970	8.7
Mechanical engineering	6,475,345	6.7	4,584,459	6.3
Metallurgy	5,561,073	5.8	3,848,349	5.3
Construction	4,771,851	5.0	6,836,398	9.3
Production of rubber and plastic goods	4,361,864	4.5	3,351,343	4.6
Production of construction materials	3,973,268	4.1	3,108,739	4.2
Hotels and restaurant	3,596,452	3.7	22,914	0.0
Power engineering	2,614,353	2.7	2,243,804	3.1
Transport and communications	1,911,787	2.0	2,034,848	2.8
Individuals	1,303,048	1.4	1,001,516	1.4
Road construction	1,053,974	1.1	2,100,773	2.9
Pulp and paper industry	1,033,578	1.1	977,997	1.3
Light industry	493,310	0.5	328,957	0.4
Finance	453,280	0.5	233,958	0.3
Health protection	239,892	0.3	187,212	0.3
Wood processing	220,159	0.2	166,633	0.2
Proffecional, scientific and technical activity	171,104	0.2	950,239	1.3
Metal processing	158,885	0.2	135,139	0.2
Other	813,443	0.9	822,209	1.1
	95,948,114	**100**	**73,160,901**	**100**

Included in the corporate lending portfolio are finance lease receivables. They may be analysed as follows:

	2015	*2014*
Gross investment in finance leases, receivable:		
Less than 1 year	84,653	13,481
From 1 to 5 years	118,371	9,468
	203,024	**22,949**
Unearned future finance income on finance leases	(59,477)	(767)
Net investment in finance leases	**143,547**	**22,182**

	2015	*2014*
Net investment in finance leases, receivable:		
Less than 1 year	56,470	13,072
From 1 to 5 years	87,077	9,110
Net investment in finance leases	**143,547**	**22,182**

9. Investment securities

As at 31 December 2015 and as at 31 December 2014, investment securities designated at fair value through profit and loss represented Ukrainian state bonds, principal of which will be indexed according to increases in the average interbank exchange rate of Hryvnia to United States dollar per month, prior to the month of issue, and the average exchange rate of Hryvnia to United States dollar per month, prior to maturity month. The Bank decided not to separate an embedded derivative instrument and to evaluate an instrument as a whole at its fair value, recognising revaluation as profit or loss.

Available-for-sale investment securities comprise:

	31 December 2015	*31 December 2014*
Ukrainian state bonds	37,163,276	30,214,641
Corporate bonds	2,388,565	7,156,304
Municipal entities	1,628,039	3,043,563
Corporate shares	11,690	11,691
Available-for-sale investments	**41,191,570**	**40,426,199**

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 31 December 2015, available-for-sale investment securities with a carrying value of UAH 3,620,028 thousand are pledged as collateral under loans received from the NBU (31 December 2014: UAH 1,635,455 thousand) (Note 16).

As at 31 December 2014, available-for-sale investment securities with a carrying value of UAH 808,541 thousand are pledged as collateral under repurchase agreements with the NBU (Note 16).

As at 31 December 2014, Ukrainian state bonds classified as available-for-sale investment securities with a carrying value of UAH 30,898,854 thousand are used by the Bank for the partial fulfilment of the requirements for the mandatory reserves of the NBU (Note 6).

Held-to-maturity investment securities comprise the following:

	31 December 2015		*31 December 2014*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Ukrainian state bonds	248,483	230,912	-	-
Corporate bonds	-	-	776,183	820,866
Held-to-maturity investments		**230,912**		**820,866**

As at 31 December 2014, held-to-maturity investment securities with a carrying value of UAH 820,866 thousand are pledged as collateral under loans received from the NBU (Note 16).

10. Investment property

The movements of investment property are as follows:

	2015	2014
Investment property as at 1 January	**1,986,087**	**3,666,666**
Transfer from owner occupied property	3,794	40,921
Additions	-	6,937
Transfer to other assets	-	(639)
Disposals	(530)	(14,569)
Net loss from fair value remeasurement	(422,409)	(1,713,229)
Investment property as at 31 December	**1,566,942**	**1,986,087**

In 2015, the Bank sold an investment property item with the gain of UAH 185 thousand (2014: UAH 136 thousand).

In 2015 the Bank revalued its investment property. The valuation was performed by an independent appraiser, who holds a recognised and relevant professional qualification and who has relevant experience in valuation of property of similar location and category. The most efficient use method is the key valuation principle underlying the fair value measurements in the appraisers' reports. The highest and best use method specifies that the market value of the real estate property is based on its highest and best use which creates the highest value for the property. Only asset utilisations that are technically feasible, permissible and economically justifiable are considered.

In 2015 the Bank recognised the result from remeasurement of investment property fair value in the amount of UAH 422,409 thousand in other operating expenses (2014: UAH 1,713,229 thousand).

The Bank leased out a portion of its investment property under operating lease agreements. Future minimum receivables under non-cancellable operating leases comprise the following:

	31 December 2015	*31 December 2014*
Less than 1 year	19,712	15,487
From 1 to 5 years	17,951	20,106
Future minimum receivables under non-cancellable operating lease	**37,663**	**35,593**

During 2015 the Bank has recognised rental income of UAH 34,305 thousand (2014: UAH 29,942 thousand), included in other income in the consolidated statement of profit and loss (the consolidated income statement).

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construc-tion in progress*	*Total*
Cost or revalued amount							
At 31 December 2014	**1,873,417**	**12,314**	**420,141**	**212,790**	**28,831**	**138,088**	**2,685,581**
Additions	-	-	8,597	14,911	-	2,443	25,951
Disposals	(20)	(690)	(3,608)	(1,123)	-	(155)	(5,596)
Transfer to investment property	-	-	-	-	-	(3,794)	(3,794)
Transfers	3,349	653	-	-	-	(4,002)	-
At 31 December 2015	**1,876,746**	**12,277**	**425,130**	**226,578**	**28,831**	**132,580**	**2,702,142**
Accumulated depreciation							
At 31 December 2014	**-**	**(9,939)**	**(268,275)**	**(135,918)**	**(19,806)**	**-**	**(433,938)**
Charge for the year	(31,511)	(1,591)	(45,823)	(17,456)	(3,739)	-	(100,120)
Disposals	20	676	1,421	743	-	-	2,860
At 31 December 2015	**(31,491)**	**(10,854)**	**(312,677)**	**(152,631)**	**(23,545)**	**-**	**(531,198)**
Net book value:							
At 31 December 2014	**1,873,417**	**2,375**	**151,866**	**76,872**	**9,025**	**138,088**	**2,251,643**
At 31 December 2015	**1,845,255**	**1,423**	**112,453**	**73,947**	**5,286**	**132,580**	**2,170,944**

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construc-tion in progress*	*Total*
Cost or revalued amount							
At 31 December 2013	**1,952,077**	**12,443**	**372,443**	**190,287**	**29,810**	**137,117**	**2,694,177**
Additions	-	-	58,499	29,147	-	41,599	129,245
Disposals	(30)	(3,292)	(7,506)	(2,174)	(956)	(9,891)	(23,849)
Transfer to investment property	(40,553)	-	(3,295)	(4,470)	(23)	-	(48,341)
Transfers	15,322	3,163	-	-	-	(18,485)	-
Deduction of accumulated depreciation prior to revaluation	(65,981)	-	-	-	-	-	(65,981)
Impairment (Note 24)	(157,039)	-	-	-	-	(11,925)	(168,964)
Revaluation through revaluation reserve in equity	169,621	-	-	-	-	(327)	169,294
At 31 December 2014	**1,873,417**	**12,314**	**420,141**	**212,790**	**28,831**	**138,088**	**2,685,581**
Accumulated depreciation							
At 31 December 2013	**(36,180)**	**(11,334)**	**(234,295)**	**(123,524)**	**(16,681)**	-	**(422,014)**
Charge for the year	(30,804)	(1,688)	(44,334)	(17,918)	(4,085)	-	(98,829)
Disposals	6	3,083	7,506	1,972	937	-	13,504
Transfer to investment property	997	-	2,848	3,552	23	-	7,420
Write-off of accumulated depreciation prior to revaluation	65,981	-	-	-	-	-	65,981
At 31 December 2014	**-**	**(9,939)**	**(268,275)**	**(135,918)**	**(19,806)**	**-**	**(433,938)**
Net book value:							
At 31 December 2013	**1,915,897**	**1,109**	**138,148**	**66,763**	**13,129**	**137,117**	**2,272,163**
At 31 December 2014	**1,873,417**	**2,375**	**151,866**	**76,872**	**9,025**	**138,088**	**2,251,643**

As at 31 December 2015, buildings, leasehold improvements and other items of property, plant and equipment include assets with a cost or revalued amount of UAH 276,792 thousand which are fully depreciated (31 December 2014: UAH 239,547 thousand). These assets are still used by the Bank.

As at 31 December 2015, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 20,059 thousand (31 December 2014: UAH 94,566 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 1 March and 1 August of each year the Bank performs testing of fair value of buildings. On the basis of such testing the deviation between fair value of buildings and their carrying value is calculated. The amount of the calculated deviation reviewed for essentiality of the impact on the financial statements of the Bank.

As at 1 March 2015 and 1 August 2015 according to the Bank's testing of the fair value of buildings no essential deviations from carrying value of buildings were found.

In 2014 the Bank revalued its buildings. Revaluation was perfomed by the independent valuators as at 31 December 2014 and fair value was determined by comparative, income and expense methods taking into account market information.

If the buildings were reported at cost, the carrying value would be as follows:

	31 December 2015 (revalued)	*31 December 2015 (at cost)*	*31 December 2014 (revalued)*	*31 December 2014 (at cost)*
Cost	1,876,746	1,037,183	1,873,417	1,033,854
Accumulated depreciation	(31,491)	(152,119)	-	(140,408)
Residual value	**1,845,255**	**885,064**	**1,873,417**	**893,446**

12. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2014	**60,229**
Additions	9,324
Disposals	(4,768)
At 31 December 2015	**64,785**
Accumulated depreciation	
At 31 December 2014	**(46,151)**
Charge for the year	(5,819)
Disposals	4,769
At 31 December 2015	**(47,201)**
Net book value:	
At 31 December 2014	**14,078**
At 31 December 2015	**17,584**

	Computer software and licences
Cost	
At 31 December 2013	**54,900**
Additions	5,330
Disposals	(1)
At 31 December 2014	**60,229**
Accumulated depreciation	
At 31 December 2013	**(40,204)**
Charge for the year	(5,948)
Disposals	1
At 31 December 2014	**(46,151)**
Net book value:	
At 31 December 2013	**14,696**
At 31 December 2014	**14,078**

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 31 December 2015, intangible assets include assets with a cost of UAH 33,200 thousand which have been fully amortised (31 December 2014: UAH 31,939 thousand). These assets are still used by the Bank.

13. Income tax

The corporate income tax charge comprises:

	2015	2014
Current tax charge	416,750	107,270
Deferred tax credit	(423,471)	(1,299,726)
Income tax credit	**(6,721)**	**(1,192,456)**

As at 31 December 2015, Ukrainian corporate income tax was calculated as financial result adjusted for tax differences (2014: taxable income less allowable expenses) at the rate of 18% (31 December 2014: 18%).

Income tax assets and liabilities consist of the following:

	31 December 2015	*31 December 2014*
Current tax assets	293,122	691,771
Deferred income tax assets	1,730,750	1,307,279
Income tax assets	**2,023,872**	**1,999,050**
Current income tax liabilities	-	25,181
Income tax liabilities	**-**	**25,181**

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	2015	2014
Loss before tax	(14,070,493)	(12,441,773)
Statutory tax rate	18%	18%
Income tax credit at the statutory rate	(2,532,689)	(2,239,519)
Effect of change in tax rates	-	1,867
Revision of temporary difference due to the changes in tax laws	2,099,935	314,454
Unrecognised deferred tax asset	331,652	717,018
Non-deductible expenditures:		
- salaries and bonuses	-	4,136
- consulting and marketing	660	862
- utilities	-	3,335
- repair and maintenance of property and equipment	-	2,627
- charity	1,254	521
- lease	-	425
- other banking operating services	91,857	1,558
- other expenses	610	260
Income tax credit	**(6,721)**	**(1,192,456)**

Deferred tax assets and liabilities include:

		Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	01 January 2014	***In the consolidated statement of profit and loss***	***In other compre-hensive income***	***31 December 2014***	***In the consolidated statement of profit and loss***	***In other compre-hensive income***	***31 December 2015***
Tax effect of deductible temporary differences:							
Allowance for impairment of assets and liabilities	-	1,369,104	-	1,369,104	1,035,241	-	2,404,345

(thousands of Ukrainian hryvnia, unless otherwise stated)

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	01 January 2014	*In the consolidated statement of profit and loss*	*In other comprehensive income*	*31 December 2014*	*In the consolidated statement of profit and loss*	*In other comprehensive income*	*31 December 2015*
Accruals	12,793	(12,620)	-	173	(173)	-	-
Valuation of financial instruments	205,849	550,535	(41,191)	715,193	(276,805)	101,042	539,430
Other assets/ liabilities	143	(143)	-	-	2,257	-	2,257
Deferred income tax asset	**218,785**	**1,906,876**	**(41,191)**	**2,084,470**	**760,520**	**101,042**	**2,946,032**
Tax effect of taxable temporary differences:							
Allowance for impairment of assets and liabilities	(72,428)	72,428	-	-	-	-	-
Property, equipment and intangible assets	(47,829)	25,883	(34,219)	(56,165)	(9,405)	-	(65,570)
Investment property	(15,565)	15,565	-	-	-	-	-
Other assets/ liabilities	-	(4,008)	-	(4,008)	4,008	-	-
Deferred tax liabilities	**(135,822)**	**109,868**	**(34,219)**	**(60,173)**	**(5,397)**	**-**	**(65,570)**
Unrecognised deferred tax asset	**-**	**(717,018)**	**-**	**(717,018)**	**(331,652)**	**(101,042)**	**(1,149,712)**
Net deferred tax assets/(liabilities)	**82,963**	**1,299,726**	**(75,410)**	**1,307,279**	**423,471**	**-**	**1,730,750**

The Bank does not recognise deferred tax asset in the full amount and created respective provision for deferred tax asset as at 31 December 2015. For the information on the professional judgements of the management applied to the recognition of deferred tax assets refer to Note 4.

14. Impairment provisions and other reserves

The movements in other impairment provisions and other reserves are as follows:

	Investment securities held to maturity	*Other assets*	*Guarantees and commitments*	*Total*
At 31 December 2013	**18,236**	**44,157**	**-**	**62,393**
Translation differences	-	4,098	7,258	11,356
Charge/(reversal)	(18,236)	4,530	(6,858)	(20,564)
Transfer from investment securities	-	178,046	-	178,046
Amounts written-off	-	(136)	-	(136)
At 31 December 2014	**-**	**230,695**	**400**	**231,095**
Translation differences	-	4,898	30,664	35,562
Charge/(reversal)	-	20,812	(8,851)	11,961
Amounts written-off	-	(1,101)	-	(1,101)
At 31 December 2015	**-**	**255,304**	**22,213**	**277,517**

During 2014 available-for-sale investment securities of one issuer were not repaid on maturity and were reclassified to Other assets and fully provisioned (UAH 178,046 thousand).

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

15. Other assets and liabilities

Other assets comprise:

	31 December 2015	*31 December 2014*
- other financial assets:		
Receivables on transactions with customers	210,074	199,584
Service fee on financial guarantees issued	202,107	5,873
Transit accounts in respect of card operations	163,371	28,394
Other accrued income	29,106	21,405
Other	-	70
	604,658	255,326
Less: Allowance for impairment (Note 14)	(200,476)	(206,629)
Other financial assets	404,182	48,697
- other assets:		
Other tax assets, except those related to income tax	277,925	280,320
Precious metals	62,587	50,712
Prepayments	53,087	44,885
Cash and cash equivalents, the presence of which is not confirmed	30,740	-
Inventories	21,425	16,105
Other	2,135	1,635
	447,899	393,657
Less: Allowance for impairment (Note 14)	(54,828)	(24,066)
Other assets	393,071	369,591
Total other assets	**797,253**	**418,288**

As at 31 December 2015 and 2014 other tax assets, except those related to income tax, mainly consist of a recognised VAT credit related to repossessed investment property (Note 10) which will be set-off against VAT liabilities recognised as a result of the future sale of the investment property.

As at 31 December 2015, prepayments include balances of UAH 8,648 thousand (31 December 2014: UAH 2,456 thousand) in respect of the purchase of property, equipment and intangible assets, and balances of UAH 4,775 thousand (31 December 2014: UAH 4,029 thousand) in respect of the construction of branch premises.

Other liabilities comprise:

	31 December 2015	*31 December 2014*
- other financial liabilities:		
Accrued expenses	42,735	9,341
Transit accounts in respect of card operations	30,963	49,439
Transit accounts on transactions with customers	6,688	1,661
Liabilities in respect of financial guarantees issued	5,895	5,888
Other financial liabilities	86,281	66,329
- other liabilities:		
Provision for unused vacation	68,476	56,913
Payables to Guarantee Fund of Individuals' Deposits	52,875	42,164
Accrued salary payable	24,504	13,530
Deferred income	12,922	9,009
Accrued pension contribution	830	1,148
Other	46,499	34,853
Other liabilities	206,106	157,617
Total other liabilities	**292,387**	**223,946**

(thousands of Ukrainian hryvnia, unless otherwise stated)

16. Amounts due to the National Bank of Ukraine

Amounts due to the National Bank of Ukraine as at 31 December 2015 comprise:

	31 December 2015	*31 December 2014*
Loans due to the National Bank of Ukraine	2,977,827	4,445,182
Correspondent account	1,948	2,014
Repurchase agreements	-	801,784
Amounts due to the National Bank of Ukraine	**2,979,775**	**5,248,980**

As at 31 December 2014, the Bank entered into repurchase agreements with the NBU of UAH 801,784 thousand, the subject of these agreements were Ukrainian state bonds with the fair value of UAH 808,541 thousand (Note 9).

As at 31 December 2015, loans due to the National Bank of Ukraine comprise:

Origination date	Maturity date	Type of interest rate	Effective interest rate	Carrying value
19 March 2009	10 June 2020	Fixed rate	20%	1,233,266
19 March 2009	10 June 2020	Fixed rate	20%	1,744,561
Amounts due to the National Bank of Ukraine				**2,977,827**

As at 31 December 2014, loans due to the National Bank of Ukraine comprise:

Origination date	Maturity date	Type of interest rate	Effective interest rate	Carrying value
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	14.5%	1,745,510
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	14.5%	2,044,309
03 February 2010	24 January 2016	Floating (NBU rate + 2%)	16%	655,363
Amounts due to the National Bank of Ukraine				**4,445,182**

These loans are initially recognized at fair value, which was based on the market data at the date of recognition.

Loans due to the NBU are secured with loans to customers (Note 8) and investment securities (Note 9).

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2015	*31 December 2014*
Loans due to international financial organisations	14,045,679	11,191,711
Loans and deposits due to other banks	4,100,747	3,440,923
Current accounts	1,152,421	1,922,697
Other amounts due to credit institutions	23	1,124
Amounts due to credit institutions	**19,298,870**	**16,556,455**
Held as security against guarantees (Note 22)	29,705	44,557

As at 31 December 2015, included in current accounts is UAH 539,387 thousand received from five Ukrainian banks (31 December 2014: UAH 1,256,693 thousand received from five Ukrainian banks). The amount was received under normal banking terms and conditions.

As at 31 December 2015, included in amounts due to credit institutions is UAH 1,390,022 thousand received from Ukrainian banks (31 December 2014: UAH 2,153,130 thousand).

As at 31 December 2015, loans and deposits due to other banks and loans due to international financial organisations include UAH 1,046,260 thousand and UAH 569,333 thousand received from OECD banks and international financial organisations, respectively, under the trade and export financing agreements (31 December 2014: UAH 1,166,656 thousand and UAH 848,391 thousand respectively). These loans are denominated in US dollars, euros and Japanese yen and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the respective trade and export financing programmes.

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 31 December 2015 international financial institutions loans include loans from the International Bank for Reconstruction and Development (IBRD) within the framework of the second project of export development and additional finance for the second project of export development totalling UAH 5,437,942 thousand (31 December 2014: UAH 3,544,973 thousand). The total amount of these loans under the loan agreements is USD 304,500 thousand. These loans are denominated in US dollars received by the Bank with interest rate of LIBOR + spread IBRD, which is reviewed twice a year, and have a current interest rate: 0.86% and 1.15%, maturing in 2026 and 2041 respectively.

Loans from international financial institutions also include loans from the IBRD for the Project on Energy Efficiency in the amount of UAH 2,473,662 thousand (31 December 2014: UAH 1,220,425 thousand). The total amount of this loan under the loan agreement is USD 200,000 thousand. The loan is denominated in US dollars with an interest rate of LIBOR + spread IBRD, which is reviewed twice a year, with the current interest rate: 1.07%, the loan matures in 2040.

International financial institutions loans include loans from the European Bank for Reconstruction and Development (“EBRD”) within the Framework of the energy efficiency programs in Ukraine totalling UAH 807,971 thousand (31 December 2014: UAH 791,265 thousand). These loans are denominated in US dollars and maturing in 2017, have floating interest rates LIBOR + spread EBRD, which is reviewed twice a year, with the current interest rate 6.8708%.

Loans from international financial institutions also include loans from the European Investment Bank (“EIB”) within the Ukreximbank Loan for SMEs and Mid-Caps totalling UAH 3,289,579 thousand (31 December 2014: UAH 2,158,200 thousand). The total amount of these loans under the loan agreement is equivalent of EUR 100,000 thousand. These loans are denominated in US dollars and maturing in 2023, have floating interest rates for each tranche: LIBOR + spread EIB, which is reviewed twice a year, with the current interest rate: 4.031% and 4.3475 respectively.

For the purposes of the cash flow statement presentation, the Bank allocates funds, attracted from credit institutions, between the funds for the operating and financing activities. Funds raised from the Ukrainian banks are included in the category of funds for operation activities, and funds from other banks for financing activities.

18. Amounts due to customers

Amounts due to customers comprise:

	31 December 2015	***31 December 2014***
Current accounts		
- Legal entities	13,526,606	10,368,656
- Budget financed organisations	4,699,932	2,390,125
- Individuals	3,002,802	2,479,182
- Funds under the Bank’s management (see below)	13,718	17,055
	21,243,058	**15,255,018**
Time deposits		
- Legal entities	36,643,285	27,444,607
- Individuals	21,431,600	19,295,504
	58,074,885	**46,740,111**
Amounts due to customers	**79,317,943**	**61,995,129**
Held as security against loans to customers	912,330	907,144
Held as security against guarantees and avals (Note 22)	535,733	291,110
Held as security against letters of credit (Note 22)	444,464	188,135
Held as security against undrawn loan commitments (Note 22)	1,978	19,932

As at 31 December 2015, legal entities current accounts included funds of top ten customers in the amount of UAH 3,470,838 thousand (25.7% of legal entities current accounts) (31 December 2014: UAH 2,494,286 thousand, or 24.1%).

As at 31 December 2015, individuals' current accounts included funds of top ten customers in the amount of UAH 77,529 thousand (2.6% of individuals' current accounts) (31 December 2014: UAH 61,918 thousand, or 2.5%).

As at 31 December 2015, term deposits of legal entities included funds raised from five customers – legal entities in the amount of UAH 27,045,620 thousand (73.8% of term deposits of legal entities) (31 December 2014: UAH 18,296,943 thousand, or 66.67%).

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 31 December 2015, term deposits of individuals included funds raised from ten individuals in the amount of UAH 1,523,604 thousand (7.1% of term deposits of individuals) (31 December 2014: UAH 1,160,958 thousand, or 6.02%).

As at 31 December 2015, term deposits of legal entities included funds raised in gold, which are accounted for at fair value through profit or loss in the amount to UAH 15,322 thousand (31 December 2014: UAH 11,054 thousand).

As at 31 December 2015, term deposits of individuals included funds raised in gold, which are accounted at fair value through profit or loss in the amount to UAH 142,425 thousand (31 December 2014: UAH 119,075 thousand).

In accordance with Ukrainian legislation, the Bank is obliged to return time deposit to individuals on their request only on maturity date prescribed in the deposit agreement. Early return of time deposit on customer request is prohibited and could be done only in the cases and under conditions stipulated by such agreement.

Funds under the Bank's management

The Bank acts as an asset manager in respect of certain funds related to construction financing Amounts due to funds under the Bank's management are as follows:

	2015	*2014*
At 1 January	**17,055**	**1,069**
Funds attracted from individuals	52,889	82,978
Invested funds	(56,226)	(66,992)
At 31 December	**13,718**	**17,055**

An analysis of customer accounts by economic sector is as follows:

	31 December 2015	%	*31 December 2014*	%
Agriculture and food industry	27,263,219	34.4	17,823,477	28.7
Individuals	24,434,402	30.8	21,774,686	35.1
Trade	6,234,324	7.9	6,147,434	9.9
Budget organizations	4,699,932	5.9	2,390,125	3.9
Transport and communications	2,086,555	2.6	2,052,308	3.3
Professional, scientific and technical activities	2,003,401	2.5	1,005,284	1.6
Mechanical engineering	1,896,796	2.4	1,815,486	2.9
Finance	1,820,697	2.3	2,305,178	3.7
Construction	1,259,118	1.6	580,222	0.9
Power engineering	1,130,043	1.4	396,968	0.6
Information and telecommunications	779,643	1.0	471,275	0.8
Extractive industry	527,598	0.7	324,201	0.5
Metal processing	446,645	0.6	262,401	0.4
Chemical industry	421,939	0.5	480,516	0.8
Real estate	365,163	0.5	1,055,002	1.7
Processing	344,104	0.4	212,332	0.3
Production of rubber and plastic goods	313,646	0.4	192,251	0.3
Wood processing	251,457	0.3	165,898	0.3
Production of construction materials	219,211	0.3	350,607	0.6
Health protection	160,222	0.2	77,042	0.1
Personal services	154,244	0.2	192,055	0.3
Metallurgy	122,606	0.2	418,182	0.7
Hotels and restaurants	99,974	0.1	58,114	0.1
Education	99,314	0.1	96,503	0.2
Light industry	94,774	0.1	41,413	0.1
Pulp and paper industry	92,645	0.1	98,687	0.2
Other	1,996,271	2.5	1,207,482	2.0
Amounts due to customers	**79,317,943**	**100**	**61,995,129**	**100**

19. Eurobonds issued

	31 December 2015		31 December 2014	
	Nominal value (thousand of USD)	*Carrying value*	*Nominal value (thousand of USD)*	*Carrying value*
April 2010 issue	500,000	12,158,478	500,000	7,998,928
October 2010 issue	250,000	6,079,239	250,000	3,999,464
January 2013 issue	500,000	12,403,814	500,000	8,138,406
April 2013 issue	100,000	2,480,763	100,000	1,627,681
Eurobonds issued		**33,122,294**		**21,764,479**

In April 2010, the Bank, through BIZ Finance PLC (consolidated structured company registered in the United Kingdom), issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,998,250 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.375% p.a. and maturity in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

Issued Eurobonds in the form of loan participation notes with a par value of USD 750,000 thousand and maturity in 2015 were reprofiled on 20 July 2015 on the following conditions:

- the coupon rate of 9.625% p.a.;

- maturity date was postponed by 7 years until 27 April 2022 in addition to that 50% of the principal amount of the Eurobonds should be repayed on 27 April 2019 and the rest of principal amount of the Eurobonds should be repayed with six equal semi-annual payments, beginning on 27 October 2019, and with the last payment on 27 April 2022.

As change of conditions did not result in derecognition of existing debt, after amending the conditions of these Eurobonds the Bank continued to recognize these liabilities at amortized cost using new effective interest rate.

In January 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in January 2018.

In April 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds had a fixed coupon rate of 8.75% p.a. and maturity in January 2018 and were consolidated and form a single series with the notes issued in January 2013.

These bonds were consolidated and form a signle seria with the bonds issued in January 2013.

Issued Eurobonds in the form of loan participation notes with a par value of USD 600,000 thousand and maturity in 2018 were reprofiled on 23 July 2015 on the following conditions:

- the coupon rate of 9.75% p.a.;

- maturity date was postponed by 7 years until 22 January 2025 in addition to that 50% of the principal amount of the Eurobonds should be repayed on 22 January 2021 and the rest of principal amount of the Eurobonds should be repayed with eight equal semi-annual payments, beginning on 22 July 2021, and with the last payment on 22 January 2025.

As change of conditions did not result in derecognition of existing debt, after amending the conditions of these Eurobonds the Bank continued to recognize these liabilities at amortized cost using new effective interest rate.

All Eurobonds issued are subject to various covenants and restrictions (Note 22).

20. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 2,280,063 thousand) from Credit Suisse International. Carrying value of the loan was UAH 2,338,461 thousand as at 31 December 2015 (2014: UAH 1,526,527 thousand). This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. The loan matures in February 2016. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH (720,020 thousand) from Credit Suisse International. Carrying value of the loan was UAH 738,461 thousand as at 31 December 2015 (2014: UAH 482,061 thousand). This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

On 29 May 2015 the Bank as borrower, the Credit Suisse International as a creditor and Biz Finance Plc as a new creditor concluded the second supplementary loan agreement under the terms of which Credit Suisse International as a creditor was replaced by Biz Finance Plc.

On 9 July 2015 the Bank and Biz Finance Plc concluded the agreement on amendments and the new edition of the loan agreement (the agreement on borrowings of funds on subordinated terms in the form of subordinated debt) for the amount of USD 125,000 thousand concerning the following:

- the interest rate was changed to 7% p.a. + 6-months Libor rate and as at 31 December 2015 the interest rate was 7.5091%;
- maturity date was postponed by 7 years until 9 February 2023 in addition to that 50% of the principal amount of the Subordinated debt should be repayed on 9 February 2020 and the rest of principal amount should be repayed with six equal semi-annual payments, beginning on 9 August 2020, and with the last payment on 9 February 2023.

As change of conditions did not result in derecognition of existing debt, after amending the conditions of this subordinated debt the Bank continued to recognize these liabilities at amortized cost using new effective interest rate.

In May 2009, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 6,000,167 thousand) from the EBRD. Carrying value of the loan was UAH 6,298,447 thousand as at 31 December 2015 (2014: UAH 4,131,447 thousand). The loan matures in May 2019. Interest rate was fixed for the first five years and comprised 13.21% per annum. Starting from 28 July 2014 for the next five years the interest rate is floating, set according to agreement terms and comprise 12% + 6-month LIBOR. As at 31 December 2015 the interest rate was 12.4697%. Interest payments are made semi-annually in arrears on 28 July and 28 January of each year, commencing on 28 July 2009.

Subordinated debts are subject to various covenants and restrictions (Note 22).

21. Equity

As at 31 December 2015, the Bank's authorised issued share capital comprised 14,834,780 (31 December 2014: 11,414,901) ordinary shares with a nominal value of UAH 1,462.04 per share (31 December 2014: 1,462.04 per share). All shares have equal voting rights. As at 31 December 2015, 14,834,780 shares were fully paid and registered (31 December 2014: 11,414,901 shares were fully paid and registered).

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
At 1 January 2014	**11,414,901**	**16,514,051**	**16,514,051**
Shares issued	-	174,991	174,991
At 31 December 2014	**11,414,901**	**16,689,042**	**16,689,042**
Shares issued	3,419,879	5,000,000	5,000,000
At 31 December 2015	**14,834,780**	**21,689,042**	**21,689,042**

(thousands of Ukrainian hryvnia, unless otherwise stated)

In December 2014, according to the Resolution of the Cabinet of Ministers of Ukraine No 713 dated 29 December 2014 the Bank's share capital was increased by UAH 5,000,000 thousand through issue of 3,419,879 new shares with nominal value of UAH 1,462.04 each with 100% of these shares kept by the State. As at the reporting date these shares have not yeat been registered and therefore were included in "Unregistered contributions to share capital". In March 2015 capital was increased by UAH 5,000,000 thousand after registration of shares shares.

In August 2014, according to the Resolution of the Cabinet of Ministers of Ukraine No 142 dated 21 May 2014 the Bank's share capital was increased by UAH 174,991 thousand through capitalisation of part of the net profit for 2012 and retained earnings of previous years according to UAR.

In May 2014, in accordance with the legislation of Ukraine, the Bank made a profit distribution to shareholders in the amount of UAH 100,310 thousand.

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available for sale*	*Revaluation reserves*
At 1 January 2014	**956,565**	**17,896**	**974,461**
Revaluation of property	169,294	-	169,294
Depreciation of revaluation reserve, net of tax	(16,234)	-	(16,234)
Realised revaluation result transferred to retained earnings	(16,516)	-	(16,516)
Disposal gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	-	(13,944)	(13,944)
Impairment on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	-	84,758	84,758
Net unrealised gains on available-for-sale investment securities	-	149,186	149,186
Tax effect of property revaluation, net income from investment securities available-for-sale	(34,219)	(41,191)	(75,410)
At 31 December 2014	**1,058,890**	**196,705**	**1,255,595**
Depreciation of revaluation reserve, net of tax	(18,627)	-	(18,627)
Disposal gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	-	(31,205)	(31,205)
Net unrealised losses on available-for-sale investment securities	-	(540,940)	(540,940)
At 31 December 2015	**1,040,263**	**(375,440)**	**664,823**

Nature and purpose of revaluation reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised losses on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

Reserves and other funds of the Bank

The reserve fund is created in accordance with the Charter to achieve 25 per cent of the size of the regulatory capital at the beginning of each year. The size of the allocations to the reserve fund is not less than 5 per cent of the amount of the Bank's annual profit. The reserve fund is created for incidental losses for all assets and off-balance sheet commitments.

The Bank's distributable reserves are determined by the amount of the reserves according to the Bank's accounts. As at 31 December 2015 the amount of non-distributable reserves was UAH 827,749 thousand (31 December 2014: UAH 1,491,305 thousand). Non-distributable reserves are represented by revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. Commitments and contingencies

Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include low levels of liquidity in the capital markets and the existence of restrictive currency controls which cause the national currency to be illiquid outside of Ukraine.

The stabilisation and further recovery of the Ukrainian economy will be significantly impacted by the policies and decisions of the Government, the Verkhovna Rada of Ukraine and the NBU with regard to administrative, legal and economic reforms, regulating of the conflict in the east of the country, amount of the international financial aid and conditions of external markets.

As a result, banking operations in Ukraine involve political and economic risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to changes in the global financial and commodity markets. Deteriorated conditions of economic cooperation with the Russian Federation and overall foreign trade conditions have resulted in the reduced export of commodities and accompanying services. Devaluation of the national currency, high inflation, decrease in output in almost all sectors of the economy, reduction of personal disposable income, capital outflow had a negative impact on the Ukrainian economy.

According to the information of the State statistics service of Ukraine in 2015 the decline in the gross domestic product (GDP) is 9,9%, consumer inflation in 2015 was 43,3%, industrial output constracted by 13,0%. As at 31 December 2015 the official NBU exchange rate of Hryvnia against US dollar was UAH 24.0007 per USD 1, compared to UAH 15.7686 per USD 1 as at 31 December 2014.

In 2015 the stabilisation measures in economic environment were the enhanced cooperation with the International Monetary Fund (on 11 March 2015 the Executive Board of the International Monetary Fund approved an Extended Arrangement under the Extended Fund Facility for Ukraine totalling over USD 17,5 billion for the period of four years), international financial oganisations, restrictive measures from the side of the National Bank of Ukraine and the Government, cleansing of the banking system, reaching agreement with creditors concerning the restructuring of government debt and quaranteed government debt.

From 15 February 2015 the introduction of the ceasefire in certain areas of Donetsk and Lugansk regions (the territory of the "anti-terrorist" operation ("ATO") as a result of implemention of "Complex of measures on implementation of the Minsk agreements"not become a sufficient condition for recovery of normal operational work of banking system of Ukraine there and the normal functioning of the structural units of the Bank in particular.

In addition, factors such as the growth of unemployment in Ukraine, lower levels of liquidity and profitability in the corporate sector and increase in the number of instances where legal entities and individuals become insolvent had a negative effect on the borrowers' ability to repay the amounts owed to the Bank and caused the decline in the value of collateral pledged for loans. After receiving the relevant information, the Bank promptly revises its estimates of expected future cash flows.

Whilst the Government and the Bank management take appropriate measures to support the sustainability of the Bank's business in the current circumstances, continued further deterioration in the areas described above could negatively affect the Bank's results and financial position.

Legal aspects

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly reduces with the passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties and, in some cases with unrelated parties (controlled operations) that are not at market value, entities should charge additional taxes.

The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance with the transfer pricing rules.

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	31 December 2015	*31 December 2014*
Guarantees	5,866,577	2,215,425
Letters of credit	463,133	536,425
Undrawn loan commitments	181,127	259,545
Avals on promissory notes	34,184	39,835
	6,545,021	**3,051,230**
Less – Provisions (Note 14)	(22,213)	(400)
Financial commitments and contingencies (before deducting collateral)	**6,522,808**	**3,050,830**
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 17, Note 18)	(1,011,880)	(543,734)
Financial commitments and contingencies	**5,510,928**	**2,507,096**

As at 31 December 2015, the Bank issued letters of credit of UAH 418,043 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 399,374 thousand (31 December 2014: UAH 504,008 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 155,718 thousand).

As at 31 December 2015, the Bank issued guarantees of UAH 4,823,056 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 360,708 thousand (31 December 2014: UAH 1,442,633 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 63,447 thousand).

As at 31 December 2015 undrawm loan commitments for plastic cards amounted to UAH 182,595 thousand (31 December 2014: UAH 160,047 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

(thousands of Ukrainian hryvnia, unless otherwise stated)

23. Net commission income

Net commission income comprises:

	2015	*2014*
Commission income		
Cash and settlement service	547,741	396,489
Guarantees and letters of credit	417,850	90,540
Operations with banks	98,239	82,160
Credit servicing commission	13,028	11,339
Other	25,732	17,642
	1,102,590	**598,170**
Commission expense		
Guarantees and letters of credit	(195,103)	(27,244)
Cash and settlement service	(189,825)	(134,787)
Currency conversion	(3,835)	(4,053)
Other	(3,282)	(2,275)
	(392,045)	**(168,359)**
Net commission income	**710,545**	**429,811**

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2015	*2014*
Salaries and bonuses	661,462	704,138
Charges on payroll	203,487	195,822
Personnel expenses	**864,949**	**899,960**
Loss on fair value remeasurement for investment property	422,409	1,713,230
Payables to Guarantee Fund of Individuals' Deposits	210,813	147,968
Repair and maintenance expenses	81,670	54,796
Operating taxes	30,694	224,935
Occupancy cost	29,105	23,257
Rent cost	26,455	21,637
Security	26,398	25,684
Expenses for cash collection	25,134	22,608
Electronic and data processing costs	23,777	17,324
Legal and advisory services	18,683	7,223
Household expenses	17,848	17,632
Communications	9,250	7,734
Business travel and related expenses	7,898	4,960
Charity	7,474	3,306
Marketing and advertising	7,342	10,216
Expenses related to representative offices	7,295	5,977
Other	13,434	20,035
Loss on fair value adjustment for own property	-	168,964
Other operating expenses	**965,679**	**2,497,486**

Expenses for payment to the non-state pension fund in 2015 comprised UAH 10,142 thousand (2014: UAH 11,046 thousand).

25. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. The risk management process makes a crucial contribution in ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for adhering to the risk management rules and procedures in the course of fulfilling their tasks and duties.

The Bank adheres to the following key risk management principles:

- centralisation of liquidity, interest and currency risk management at the Head Office level;
- unification of analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- definition of risk limits for transaction volumes: by Bank or Branch Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions/ balance sheet items, etc.);
- ensuring continuous risk monitoring and control and compliance with all established limits;
- avoidance of conflicts of interest;
- ensuring internal control over compliance with policies and procedures.

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank's strategic planning process.

Risk management structure

The Supervisory Board is generally responsible for establishment and approval of objectives in the sphere of risk management and management of capital. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Risk Management Division, Securities Division, Treasury Division, Internal Audit Division.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by relevant risk decisions based on quarterly reports of the Risk Management Division, ALCO, Credit Committee and Retail Business Committee. The Management Board approves the Bank's risk management.

Assets and Liabilities Committee ("ALCO")

The ALCO has the overall responsibility for implementing principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by the Management Board. The ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

The Credit Committee and Retail Business Committee have the overall responsibility for implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Management Board. These committees report to the Management Board.

Risk Management Division

Risk Management Division is responsible for control, monitoring, analysis and reporting of key risk indicators connected with the Bank's activities. In addition, Risk Management Division elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. The Risk Management Division reports to the Management Board.

Treasury and Securities Divisions

Treasury is responsible for the management of the Bank's liquidity position via money market operations, while Securities Division is responsible for management of the Bank's liquidity position via capital market operations. The Treasury Division and Securities Division report to the Management Board.

Internal Audit Division

The risk management processes are audited on a regular basis by Internal Audit Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Management Board and the Supervisory Board.

Risk measurement and risk reporting systems

The Bank's risks are measured using methods which reflect both the expected loss under normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios reflecting the impact of extreme events with la low probability of occurrence . The Bank carries out back-testing of the models to checks their adequacy.

Risks are monitored and controlled primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by the ALCO, and covenants under contractual obligations of the Bank is submitted to the ALCO on a monthly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

Risk Mitigation

The Bank does not use derivatives to manage risks arising from changes in interest rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise credit risk (see below for more detail).

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

Credit risk

The Banks considers credit risk as the probability of non-timely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

In managing credit risk, the Bank considers the following:

- structural (strategic) management — acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in short, medium and long term horizon taking into consideration estimated and unpredictable changes in the financial and economic environment;
- on-going (operational) management - acceptable quality and volume of individual loans and commitments taking into consideration estimated and unpredictable changes in the financial and economic environment;
- structural (strategic) and on-going (operational) management of the allowance for impairment effect on the Bank's capital adequacy ratio in short, medium and long term horizon taking into consideration estimated and unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- setting targets (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;
- providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank's internal regulations;
- creation and maintaining allowances and provisions for loan related operations in volumes, which are not lower than the Bank's best estimates;
- constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio;
- taking efficient measures if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer's (counterparties') creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one insider, including financial commitments and contingencies.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: industry classification on the basis of an internal system of industry ratings, which characterises the systematic risk of the industry; monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

(thousands of Ukrainian hryvnia, unless otherwise stated)

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 20 largest customers.

Credit-related commitment risks

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks, and are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. If the letters of credit are opened on uncovered basis the Bank has risks similar to credit risks, which are mitigated by similar control procedures and principles.

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

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

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

Credit quality by category of financial assets

In 2015 the Bank introduced a new system of calculation of probability of default (PD) for corporate borrowers, which involves the calculation of probability of default (PD) and the rating class (PD-rate) from 1 to 17 (17 grades). In the table below for loans that are neither past due nor individually impaired, high rating mean the minimum level of credit risk. Other borrowers with good financial position and quality of debt servicing are included in the standard credit rating. The below standard rating have lower credit quality compared to previous ratings, but loans are not necessarily individually impaired. For loans that are past due or individually impaired, rating standard and below standard indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Low rating means that there is a high probability of default of loan, the borrower's activity is poor, loss making or ceased. For the exposures of foreign credit institutions: high rating is equal to the Fitch rating BBB- and higher, standard rating is equal to lower than BBB- , but higher than CCC+, and rating below standard and lower is equal to rating CCC+ and lower.

		Neither past due nor individually impaired			***Past due or individually impaired***		
At 31 December 2015	***No-tes***	***High rating***	***Standard rating***	***Below standard rating***	***Standard and below standard rating***	***Low rating***	***Total***
Cash and cash equivalents	6	24,241,179	-	-	-	-	24,241,179
Amounts due from foreign credit institutions	7	336,366	-	-	-	-	336,366
Amounts due from Ukrainian credit institutions	7	20	-	3,745,874	2,965	547,264	4,296,123
Investment securities:	9	-	-	-	-	-	
- designated at fair value through profit or loss		9,924,610	-	-	-	-	9,924,610
- available-for-sale		37,163,276	4,028,294	-	-	-	41,191,570
- held-to-maturity		230,912	-	-	-	-	230,912
Loans to corporate customers:	8	-	-	-	-	-	
Commercial loans		9,318,389	18,832,198	7,170,623	22,363,090	36,522,320	94,206,620
Overdrafts		48,188	64,111	140,497	20,558	-	273,354
Finance lease receivables		51,033	63,361	2,006	15,331	11,816	143,547
Promissory notes		12,390	-	9,155	-	-	21,545
		9,430,000	18,959,670	7,322,281	22,398,979	36,534,136	94,645,066

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		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2015	***No-tes***	***High rating***	***Standard rating***	***Below standard rating***	***Standard and below standard rating***	***Low rating***	***Total***
Loans to individuals	8	9,581	71,755	152,582	28,572	1,040,558	1,303,048
Total		**81,335,944**	**23,059,719**	**11,220,737**	**22,430,516**	**38,121,958**	**176,168,874**
Provision for impairment		(105,330)	(756,712)	(757,782)	(7,067,120)	(32,710,013)	(41,396,957)
Total after provision for impairment		**81,230,614**	**22,303,007**	**10,462,955**	**15,363,396**	**5,411,945**	**134,771,917**

In 2014 the Bank used an internal system of credit ratings from A + to F (16 grades), where the highest rating of A+ is characterized by an extremely high ability of the borrower to fulfil its debt obligations, and the worst rating F is for borrowers who have stopped work and/or are bankrupt. In the table below, for loans that are not past due and not individually impaired, rating A and B mean the minimum level of credit risk. Other borrowers with good financial position and quality of debt servicing are included in the credit ratings of C and D and lower. This rating have lower credit quality compared to previous ratings, but loans are not necessarily individually impaired. For loans that are past due or individually impaired, rating D and higher indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Rating E and F or no rating means that there is a high probability of default of loan, the borrower's activity is poor, loss making or ceased. For the exposures of foreign credit institutions: rating A and B is equal to the Fitch rating BBB- and higher, rating C is equal to lower than BBB- , but higher than CCC+, and rating D and lower is equal to rating CCC+ and lower.

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2014	***No-tes***	***Rating A and B***	***Rating C***	***Rating D and lower***	***Rating D and higher***	***Rating E and F or no rating***	***Total***
Cash and cash equivalents	6	16,754,230	14,677	21,507	-	-	16,790,414
Amounts due from foreign credit institutions	7	247,315	-	-	-	-	247,315
Amounts due from Ukrainian credit institutions	7	9,332	554,998	771,693	503,296	-	1,839,319
Investment securities:	9						
- designated at fair value through profit or loss		6,882,115	-	-	-	-	6,882,115
- available-for-sale		31,068,551	6,042,067	2,839,524	476,057	-	40,426,199
- held-to-maturity		-	-	820,866	-	-	820,866
Loans to corporate customers:	8						
Commercial loans		5,382,773	16,824,599	18,260,493	15,376,714	15,972,826	71,817,405
Overdrafts		97,868	184,064	11,440	10,425	-	303,797
Finance lease receivables		-	11,097	633	-	10,452	22,182
Promissory notes		6,740	-	9,261	-	-	16,001
		5,487,381	17,019,760	18,281,827	15,387,139	15,983,278	72,159,385
Loans to individuals	8	20,989	103,363	182,893	26,095	668,176	1,001,516
Total		**60,469,913**	**23,734,865**	**22,918,310**	**16,392,587**	**16,651,454**	**140,167,129**
Provision for impairment		(37,807)	(239,092)	(1,147,495)	(8,886,208)	(12,995,490)	(23,306,092)
Total after provision for impairment		**60,432,106**	**23,495,773**	**21,770,815**	**7,506,379**	**3,655,964**	**116,861,037**

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(thousands of Ukrainian hryvnia, unless otherwise stated)

The ageing analysis of past due but not impaired loans is provided below:

At 31 December 2015	***Less than 30 days***	***From 31 to 60 days***	***From 61 to to 90 days***	***Total***
Loans to customers:				
Loans to corporate customers	1,574,277	1,123,307	16,108	2,713,692
Loans to individuals	22,390	3,009	2,330	27,729
Total	**1,596,667**	**1,126,316**	**18,438**	**2,741,421**

At 31 December 2014	***Less then 30 days***	***From 31 to 60 days***	***From 61 to to 90 days***	***Over 90 days***	***Total***
Loans to customers:					
Loans to corporate customers	2,154,058	85,530	20,342	62,075	2,322,005
Loans to individuals	23,067	2,667	1,432	1,375	28,541
Total	**2,177,125**	**88,197**	**21,774**	**63,450**	**2,350,546**

The table below presents the value of collateral taken by the Bank when assessing the impairment of assets, in the amount not exceeding the carrying amount of the loan. For the purposes of impairment assessment the Bank does not take into account certain types of collateral, including trade receivables, inventory, movable property.

	31 December 2015	***31 December 2014***
Loans to corporate customers	47,700,338	35,485,759
Loans to individuals	298,578	550,993
Total	**47,998,916**	**36,036,752**

Impairment assessment

The main considerations for the loan impairment assessment is based on a determination whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances (on a portfolio basis).

Geographical concentration

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	31 December 2015			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	10,552,282	13,482,723	206,174	24,241,179
Due from credit institutions	3,747,379	299,716	36,648	4,083,743
Loans to customers	55,099,903	-	-	55,099,903
Investment securities:				
- designated at fair value through profit or loss	9,924,610	-	-	9,924,610
- available-for-sale	41,191,570	-	-	41,191,570
- held-to-maturity	230,912	-	-	230,912
Other financial assets	402,036	1,361	785	404,182
	121,148,692	**13,783,800**	**243,607**	**135,176,099**
Liabilities:				
Amounts due to the National Bank of Ukraine	2,979,775	-	-	2,979,775
Amounts due to credit institutions	1,390,026	17,905,990	2,854	19,298,870
Amounts due to customers	78,011,047	397,151	909,745	79,317,943
Eurobonds issued	-	33,122,294	-	33,122,294

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2015			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Subordinated debt	-	9,375,369	-	9,375,369
Other financial liabilities	41,275	44,714	292	86,281
	82,422,123	**60,845,518**	**912,891**	**144,180,532**
Net position	**38,726,569**	**(47,061,718)**	**(669,284)**	**(9,004,433)**
Commitments and contingencies (Note 22)	**5,494,694**	**4,234**	**12,000**	**5,510,928**

	31 December 2014			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets:				
Cash and cash equivalents	4,964,362	11,679,419	146,633	16,790,414
Due from credit institutions	1,711,488	243,544	12,619	1,967,651
Loans to customers	49,973,792	-	-	49,973,792
Investment securities:				
- designated at fair value through profit or loss	6,882,115	-	-	6,882,115
- available-for-sale	40,426,199	-	-	40,426,199
- held-to-maturity	820,866	-	-	820,866
Other financial assets	47,094	821	782	48,697
	104,825,916	**11,923,784**	**160,034**	**116,909,734**
Liabilities:				
Amounts due to the National Bank of Ukraine	5,248,980	-	-	5,248,980
Amounts due to credit institutions	2,153,131	14,368,836	34,488	16,556,455
Amounts due to customers	60,998,151	283,785	713,193	61,995,129
Eurobonds issued	-	21,764,479	-	21,764,479
Subordinated debt	-	6,140,035	-	6,140,035
Other financial liabilities	58,409	7,872	48	66,329
	68,458,671	**42,565,007**	**747,729**	**111,771,407**
Net position	**36,367,245**	**(30,641,223)**	**(587,695)**	**5,138,327**
Commitments and contingencies (Note 22)	**2,492,389**	**2,781**	**11,926**	**2,507,096**

Liquidity risk

The Bank considers liquidity risk as the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

While managing liquidity risk, the Bank is considering a combination of the following:

- structural (short and long-term) assets and liabilities management focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- current (short-term) assets and liabilities management focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management is based on acceptable levels of maturity gaps (by currency) and on the following principles:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- permanent monitoring of actual key liquidity risk indicators;

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- use of adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

Key liquidity risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU.

The liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	31 December 2015, %	***31 December 2014, %***
N4 "Instant Liquidity Ratio" (cash in hand, balances on nostro accounts with banks and unpledged deposit certificates of the National Bank of Ukraine / balances on customers' current accounts) (minimum required by the NBU — 20%)	64.68	61.03
N5 "Current Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU — 40%)	123.09	134.69
N6 "Short-Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU — 60%)	136.98	114.29

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

Financial liabilities At 31 December 2015	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***More than 5 years***	***Total***
Amounts due to the NBU	150,436	551,739	3,961,332	-	4,663,507
Amounts due to credit institutions	2,066,080	873,065	7,507,242	14,740,143	25,186,530
Amounts due to customers	66,144,071	12,979,150	1,272,008	72,127	80,467,356
Eurobonds issued	702,020	2,437,806	24,561,115	21,640,812	49,341,753
Subordinated debt	495,054	490,898	10,753,945	1,392,851	13,132,748
Other liabilities	86,281	-	-	-	86,281
Commitments and contingent financial liabilities	1,385,403	3,359,641	1,799,716	261	6,545,021
Total undiscounted financial liabilities	**71,029,345**	**20,692,299**	**49,855,358**	**37,846,194**	**179,423,196**

(thousands of Ukrainian hryvnia, unless otherwise stated)

Financial liabilities At 31 December 2014	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***More than 5 years***	***Total***
Amounts due to the NBU	930,965	4,239,156	644,913	-	5,815,034
Amounts due to credit institutions	2,961,992	2,568,992	5,634,357	9,374,767	20,540,108
Amounts due to customers	48,845,903	12,815,917	1,288,392	168,626	63,118,838
Eurobonds issued	414,533	12,735,573	11,532,583	-	24,682,689
Subordinated debt	306,831	302,642	7,869,876	-	8,479,349
Other liabilities	66,329	-	-	-	66,329
Commitments and contingent financial liabilities	812,812	1,062,464	1,175,693	261	3,051,230
Total undiscounted financial liabilities	**54,339,365**	**33,724,744**	**28,145,814**	**9,543,654**	**125,753,577**

The above table shows the timing of expiry dates of commitments and contingent financial liabilities of the Bank according to the respective agreements. The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Market risk management is performed by systematic combination of:

- interest risk management;
- foreign currency risk management.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

Interest rate risk management is performed through a combination of:

- structural (strategic) and current (operational) management of interest-earning assets aimed at achieving acceptable structure and volume of interest income in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates;
- structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and volume of interest expenses in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates.

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key interest rate risk indicators;
- permanent monitoring of actual values of key interest rate risk indicators;
- taking efficient measures if the actual values of key interest rate risk indicators approach their critical and/or threshold levels.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Key interest rate risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit and loss (consolidated income statement).

The sensitivity of the consolidated statement of profit and loss (consolidated income statement) reflects the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date.

	31 December 2015				
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	3,144	-100	(3,144)
USD	LIBOR	+75	(117,288)	-75	117,288
EUR	LIBOR	+75	31	-75	(31)
EUR	Euribor	+75	(1,049)	-75	907
Other	LIBOR	+75	542	-75	(542)
Other	Euribor	+75	3	-75	(3)
Total			**(114,617)**		**114,475**

	31 December 2014				
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	(8,727)	-100	8,727
USD	LIBOR	+75	(56,649)	-75	53,781
EUR	LIBOR	+75	37	-75	(37)
EUR	Euribor	+75	3,901	-75	(3,901)
Other	LIBOR	+75	423	-75	(418)
Other	Euribor	+75	2	-75	(2)
Total			**(61,013)**		**58,150**

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December to assess the possible effects of the assumed changes in interest rates. For securities classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified at the 3 level of the hierarchy - a method of yield curve, with the following assumptions: +/- 400 b.p. for corporate bonds with government guarantee, +/- 300 b.p. for corporate bonds, +/- 300 b.p. for Ukrainian state bonds denominated in local currency, +/- 200 b.p. for Ukrainian state bonds in USD, +/- 20% interest rate change for corporate bonds of the 3 level of hierarchy. As at 31 December 2015, the total effect of the changes on the Bank's equity is: UAH (1,169,741) thousand / UAH 1,169,741 thousand (2014: UAH (1,532,772) thousand / UAH 1,532,772thousand).

Sensitivity of net profit / (loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit / (loss) as of 31 December in terms of effects of the assumed changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/- 200 b.p. for Ukrainian state bonds on the Bank's income is UAH (113,405) thousand / UAH 113,405 thousand (2014: UAH (163,839) thousand / UAH 163,839 thousand).

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is performed through a combination of:

- structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates;

(thousands of Ukrainian hryvnia, unless otherwise stated)

- structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

Currency risk management is aimed at securing an excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- setting targets (optimal and acceptable to the Bank), critical (undesired but manageable) and threshold (urgent measures) values of key currency risk indicators;
- continuous monitoring of actual values of key currency risk indicators;
- taking efficient measures if the actual values of key currency risk indicators approach their critical and/or threshold values.

Key currency risk indicators, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the consolidated statement of profit and loss (consolidated income statement) (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss (consolidated income statement) or equity, while a positive amount reflects a net potential increase.

	31 December 2015		**31 December 2014**	
Currency	***Change in currency rate, %***	***Effect on profit before tax***	***Change in currency rate, %***	***Effect on profit before tax***
UAH/USD	+40,00%	(6,051,942)	+40,00%	(1,567,516)
UAH/EUR	+40,00%	(680,689)	+40,00%	(1,278,795)
Total		**(6,732,631)**		**(2,846,311)**
UAH/USD	-30,00%	4,538,956	-30,00%	1,175,637
UAH/EUR	-30,00%	510,517	-30,00%	959,097
Total		**5,049,473**		**2,134,734**

Offsetting financial assets and financial liabilities

As at 31 December 2014 repurchase contracts in the amount of UAH 801,784 thousand include loans from the National Bank of Ukraine, which fall under the enforceable master netting or similar arrangement.

26. Transfer of financial assets

Transfers that did not qualify for derecognition of the financial asset in its entirety

Sale and repurchase transactions

As at 31 December 2014 the Bank had investment securities available for sale which are represented by government securities with carrying value of UAH 808,541 thousand in respect of which the Bank has an obligation to repurchase for a predetermined fixed price. Information on the book value of liabilities in respect of sale and repurchase transactions is disclosed in Note 9 and Note 16.

	31 December 2014	
	Carrying amount of assets	Carrying amount of liabilities
Investment securities available for sale:		
Government bonds	808,541	801,784
Total	**808,541**	**801,784**

(thousands of Ukrainian hryvnia, unless otherwise stated)

27. Fair value of assets and liabilities

Fair value measurement procedures

For unquoted trading and available-for-sale securities and unquoted derivatives the fair value measurements are based on the accounting policies of the Bank and approved procedures of the securities portfolio management The fair values are calculated regularly using key inputs of previous measurements and other relevant information as appropriate. Securities are revalued on a monthly basis and approved by the Bank's Credit Committee.

The Bank tests the fair values of investment properties and buildings twice a year by engaging domestic professionally qualified valuers that have extensive and relevant valuation expertise. The decision on revaluation of investment properties and buildings is made by the Board of Directors based on an evaluation of the fair value of investment properties compared to their carrying amount, and whether the fair value of buildings significantly differs from their carrying amount. The investment properties and buildings are valued by external independent appraisers that are accredited with the Bank and have the market knowledge, good reputation and adhere to the principles of independence and professional standards according to the decision made by the Board of Directors.

Levels of the fair value hierarchy

For the purposes of disclosing the information about fair value, the Bank classifies the assets and liabilities based on the nature, characteristics and risks of an asset or liability and the levels of the fair value hierarchy as shown below (at carrying value):

	31 December 2015				
	Fair value measurement applied				
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2015	-	106,968	-	**106,968**
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2015	-	9,924,610	-	**9,924,610**
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2015	-	37,163,276	-	**37,163,276**
Corporate bonds	31.12.2015	-	2,388,565	-	**2,388,565**
Municipal bonds	31.12.2015	-	1,628,039	-	**1,628,039**
Corporate shares	31.12.2015	-	-	11,690	**11,690**
Investment property	01.11.2015	-	-	1,570,736	**1,570,736**
Buildings	31.12.2014	-	-	1,845,255	**1,845,255**
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2015	-	184,758	-	**184,758**
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2015	3,294,142	20,947,037	-	**24,241,179**
Amounts due from credit institutions	31.12.2015	-	3,976,775	-	**3,976,775**
Loans to customers	31.12.2015	-	-	52,878,035	**52,878,035**
Securities held to maturity	31.12.2015	-	225,113	-	**225,113**

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2015				
	Fair value measurement applied				
	Valuation date	***Quoted market prices (Level 1)***	***Valuation based on assumptions confirmed by observable data (Level 2)***	***Valuation based on assumptions not confirmed by observable data (Level 3)***	***Total***
Other assets	31.12.2015	-	404,182	-	**404,182**
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31.12.2015	-	2,979,775	-	**2,979,775**
Amounts due to credit institutions	31.12.2015	-	19,298,870	-	**19,298,870**
Amounts due to customers	31.12.2015	-	79,184,522	-	**79,184,522**
Eurobonds issued	31.12.2015	30,124,193	-	-	**30,124,193**
Subordinated debt	31.12.2015	2,359,991	6,298,447	-	**8,658,438**
Other liabilities	31.12.2015	-	86,281	-	**86,281**

	31 December 2014				
	Fair value measurement applied				
	Valuation date	***Quoted market prices (Level 1)***	***Valuation based on assumptions confirmed by observable data (Level 2)***	***Valuation based on assumptions not confirmed by observable data (Level 3)***	***Total***
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31.12.2014	-	116,908	-	**116,908**
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31.12.2014	-	6,882,115	-	**6,882,115**
Available-for-sale investment securities:					
Ukrainian state bonds	31.12.2014	-	30,214,641	-	**30,214,641**
Corporate bonds	31.12.2014	-	6,680,247	476,057	**7,156,304**
Municipal bonds	31.12.2014	-	3,043,563	-	**3,043,563**
Corporate shares	31.12.2014	-	-	11,691	**11,691**
Investment property	31.12.2014	-	-	1,986,087	**1,986,087**
Buildings	31.12.2014	-	-	1,873,417	**1,873,417**
Liabilities measured at fair value					
Due to customers in precious metals	31.12.2014	-	168,562	-	**168,562**
Assets for which fair value is disclosed					
Cash and cash equivalents	31.12.2014	3,063,084	13,727,330	-	**16,790,414**
Amounts due from credit institutions	31.12.2014	-	1,850,743	-	**1,850,743**
Loans to customers	31.12.2014	-	-	47,710,209	**47,710,209**
Securities held to maturity	31.12.2014	-	808,989	-	**808,989**
Other assets	31.12.2014	-	48,697	-	**48,697**

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2014				
		Fair value measurement applied			
	Valuation date	*Quoted market prices (Level 1)*	*Valuation based on assumptions confirmed by observable data (Level 2)*	*Valuation based on assumptions not confirmed by observable data (Level 3)*	*Total*
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31.12.2014	-	5,248,980	-	**5,248,980**
Amounts due to credit institutions	31.12.2014	-	16,556,455	-	**16,556,455**
Amounts due to customers	31.12.2014	-	61,800,361	-	**61,800,361**
Eurobonds issued	31.12.2014	15,474,116	-	-	**15,474,116**
Subordinated debt	31.12.2014	1,028,109	4,131,446	-	**5,159,555**
Other liabilities	31.12.2014	-	66,329	-	**66,329**

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

	31 December 2015			*31 December 2014*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	24,241,179	24,241,179	-	16,790,414	16,790,414	-
Amounts due from credit institutions	3,976,775	3,976,775	-	1,850,743	1,850,743	-
Loans to customers	55,099,903	52,878,035	(2,221,868)	49,973,792	47,710,209	(2,263,583)
Securities held to maturity	230,912	225,113	(5,799)	820,866	808,989	(11,877)
Other assets	404,182	404,182	-	48,697	48,697	-
Financial liabilities						
Amounts due to the National Bank of Ukraine	2,979,775	2,979,775	-	5,248,980	5,248,980	-
Amounts due to credit institutions	19,298,870	19,298,870	-	16,556,455	16,556,455	-
Amounts due to customers	79,133,185	79,184,522	(51,337)	61,826,567	61,800,361	26,206
Eurobonds issued	33,122,294	30,124,193	2,998,101	21,764,479	15,474,116	6,290,363
Subordinated debt	9,375,369	8,658,438	716,931	6,140,035	5,159,555	980,480
Other liabilities	86,281	86,281	-	66,329	66,329	-
Total unrecognized change in unrealized fair value			**1,436,028**			**5,021,589**

The following describes the methodologies and assumptions used to determine fair values for those annual consolidated financial instruments, which are not recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Fixed rate financial instruments

The fair values 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.

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Investment securities designated at fair value through profit or loss and investment securities available for sale (excluding shares), are valued using market quotes. Securities available for sale which are valued using a valuation technique or pricing models primarily consist of shares. These securities are valued using models utilising data which is not based on the market observations. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates level of enterprise goodwill, its management and founders / shareholders.

Investment property

The highest and best use method specifies that the market value of the real estate property is based on its highest and best use which creates the highest value for the property. Only asset utilisations that are technically feasible, permissible and economically justifiable are considered.

Other valuation principles are used in line with the selected valuation approaches subject to the provisions of the national standard №1 “General Principles of valuation of property and property rights”, approved by the Cabinet Ministers of Ukraine № 1440 from 10.09.2003.

Land plots are valued by applying the sales comparison approach.

Real estate is valued using either the comparative or income approach (based on the principle of expected future benefits from the use of a valued item) subject to the availability of market information and best use.

Buildings

The fair value of buildings was measured mainly using the comparative approach and in certain cases by applying either or both of the cost and income approach.

Movements in level 3assets measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which is recorded at fair value:

	1 January 2015	***Total loss recorded in consolidated statement of profit and loss (consolidated income statement)***	***Purchases***	***Settlements***	***31 December 2015***
Available-for-sale investment securities	487,748	(452,702)[a]	-	(23,356)[b]	11,690
Investment property	1,986,087	(422,224)[c]	3,794[d]	(715)[e]	1,566,942
Buildings	1,873,417	(31,511)[f]	3,349[g]	-	1,845,255
Total assets	**4,347,252**	**(906,437)**	**7,143**	**(24,071)**	**3,423,887**

		Total gain / (loss) recorded in					
	1 January 2014	*consolidated statement of profit and loss (consolidated income statement)*	*Consolida-ted other compre-hensive income*	*Purchases*	*Settlements*	*Transfers to Level 3*	*31 December 2014*
Available-for-sale investment securities	17,268	(4,983)[a]	-	-	(594)[b]	476,057	487,748
Investment property	3,666,666	(1,713,093)[c]	-	47,858[d]	(15,344)[e]	-	1,986,087
Buildings	1,915,897	(187,843)[f]	169,621	15,322[g]	(39,580)[h]	-	1,873,417
Total assets	**5,599,831**	**(1,905,919)**	**169,621**	**63,180**	**(55,518)**	**476,057**	**4,347,252**

[a] UAH 580 thousand included in "Other income", UAH 19,649 thousand included in "Interest income from Investment securities other than designated at fair value through profit or loss", and UAH 472,931 thousand of loss is included in losses from available-for-sale investment securities "Losses on impairment" (2014: UAH 594 thousand included in "Other income" and UAH 5,577 thousand of loss is included in losses on impairment from available-for-sale investment securities).

[b] UAH 23,356 thousand of settlements comprise: UAH 23,356 thousand of repayments (2014: UAH 594 thousand of settlements comprise: UAH 594 thousand of repayments).

[c] Loss from revaluation of investment property in the amount of UAH 422,409 thousand is included in other operating expenses, gain from sale of investment property of UAH 185 thousand is included in other income (2014: Loss from revaluation of investment property in the amount of UAH 1,713,229 thousand is included in other operating expenses, gain from sale of investment property of UAH 136 thousand is included in other income).

[d] Purchases in 2015 include UAH 3,794 thousand of own property transferred to investment property (2014: Purchases in the amount of UAH 47,858 thousand include UAH 6,937 thousand of acquisitions and UAH 40,921 thousand of own property transferred to investment property).

[e] Settlements in the amount of UAH 715 thousand include UAH 715 thousand of sales (2014: UAH 15,344 thousand include UAH 14,705 thousand of sales and UAH 639 thousand of transfers to receivables).

[f] Loss of UAH 31,511 thousand is included into depreciation and amortization (2014: loss of UAH 30,804 thousand is included into depreciation and amortization, and loss on revaluation of own property of UAH 157,039 thousand is included in other operating expenses).

[g] Settlements in the amount of UAH 3,349 thousand include UAH 3,349 thousand of transfer from construction in progress to premises and equipment (2014: settlements in the amount of UAH 15,322 thousand include UAH 15,322 thousand of transfer from construction in progress to premises and equipment).

[h] Purchases in the amount of UAH 39,580 thousand include UAH 24 thousand of disposals and UAH 39,556 thousand of transfers to investment property).
Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

		2015	
	Realised gains	*Unrealised losses*	*Total*
Investment securities available for sale	14,741	(467,443)	(452,702)
Investment property	185	(422,409)	(422,224)
Buildings	-	(31,511)	(31,511)
Total	**14,926**	**(921,363)**	**(906,437)**

(thousands of Ukrainian hryvnia, unless otherwise stated)

	2014		
	Realised gains	***Unrealised losses***	***Total***
Investment securities available for sale	594	(5,577)	(4,983)
Investment property	136	(1,713,229)	(1,713,093)
Buildings	-	(187,843)	(187,843)
Total	**730**	**(1,906,649)**	**(1,905,919)**

The tables below shows the quantitative information as at 31 December 2015 and 31 December 2014 about significant unobservable inputs used for the fair valuation of assets classified as those of the 3 level of the fair value hierarchy:

At 31 December 2015	***Carrying value***	***Valuation technique***	***Unobservable parameter***	***Range of parameter values***
Available-for-sale investment securities	11,690	Discounted cash flows	Expected profitability	Corporate: 5.00% - 32.00%
			Risk factor	Corporate: 0 – 1.0
Investment property:				
- real estate	651,275	Comparative, income method	Sqm	UAH 1 thousand - UAH 36 thousand
- land	915,667	Comparative	Are	UAH 6 thousand - UAH 2,596 thousand
Buildings:				
- real estate	1,843,617	Comparative	Sqm	UAH 1 thousand - UAH 34 thousand
- land	1,638	Comparative	Are	UAH 56 thousand - UAH 194 thousand

At 31 December 2014	***Carrying value***	***Valuation technique***	***Unobservable parameter***	***Range of parameter values***
Available-for-sale investment securities	487,748	Discounted cash flows	Expected profitability	Corporate: 6.78% - 25.16%
			Risk factor	Corporate: 0 – 1.0
Investment property:				
- real estate	859,977	Comparative	Sqm	UAH 1 thousand - UAH 39 thousand
- land	1,126,110	Comparative	Are	UAH 2 thousand - UAH 1 577 thousand
Buildings:				
- real estate	1,871,779	Comparative	Sqm	UAH 1 thousand - UAH 35 thousand
- land	1,638	Comparative	Are	UAH 56 thousand - UAH 194 thousand

28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 for the Bank's contractual undiscounted repayment obligations.

	31 December 2015			31 December 2014		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	24,241,179	-	24,241,179	16,790,414	-	16,790,414
Due from credit institutions	2,854,695	1,229,048	4,083,743	507,627	1,460,024	1,967,651
Loans to customers	30,713,229	24,386,674	55,099,903	20,950,203	29,023,589	49,973,792
Investment securities:						
- designated at fair value through profit or loss	6,798,950	3,125,660	9,924,610	671,260	6,210,855	6,882,115
- available-for-sale	33,727,611	7,463,959	41,191,570	25,811,418	14,614,781	40,426,199
- held-to-maturity	59,097	171,815	230,912	820,866	-	820,866

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2015			*31 December 2014*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Investment property	-	1,566,942	1,566,942	-	1,986,087	1,986,087
Property and equipment	-	2,170,944	2,170,944	-	2,251,643	2,251,643
Intangible assets	-	17,584	17,584	-	14,078	14,078
Deferred income tax asset	-	1,730, 750	1,730, 750	-	1,307,279	1,307,279
Other assets	797,253	-	797,253	418,288	-	418,288
Total	**99,485,136**	**41,863,376**	**141,348,512**	**65,970,076**	**57,560,107**	**123,530,183**
Liabilities						
Amounts due to the National Bank of Ukraine	1,948	2,977,827	2,979,775	4,593,617	655,363	5,248,980
Amounts due to credit institutions	2,168,271	17,130,599	19,298,870	4,924,349	11,632,106	16,556,455
Amounts due to customers	78,143,111	1,174,832	79,317,943	60,688,209	1,306,920	61,995,129
Eurobonds issued	982,002	32,140,292	33,122,294	12,365,831	9,398,648	21,764,479
Subordinated debt	426,947	8,948,422	9,375,369	257,151	5,882,884	6,140,035
Current income tax liabilities	-	-	-	25,181	-	25,181
Provisions for other losses	22,213	-	22,213	400	-	400
Other liabilities	292,387	-	292,387	223,946	-	223,946
Total	**82,036,879**	**62,371,972**	**144,408,851**	**83,078,684**	**28,875,921**	**111,954,605**
Net amount	**17,448,257**	**(20,508,596)**	**(3,060,339)**	**(17,108,608)**	**28,684,186**	**11,575,578**

The maturity analysis does not reflect the historical stability of current accounts. In the table above current accounts are reflected in the Amount due to customers in “Within one year” maturity bucket. It should be noted that historically substantial portion of funds have remained on the current accounts for periods longer than one year. The category Amounts due to customers includes term deposits of individuals in accordance with their contractual maturity dates. In accordance with Ukrainian legislation, the Bank is obliged to repay time deposit to individuals on their request only on maturity date prescribed in the deposit agreement. Early repayment of time deposit on customer request is prohibited and could be done only in the cases and under conditions stipulated by such agreement.

29. Presentation of financial instruments by measurement category

Assets by measurement categories as at 31 December 2015:

	Loans and receivables	***Assets available for sale***	***Assets at fair value through profit or loss***	***Assets held to maturity***	***Total***
Cash and cash equivalents	24,241,179	-	-	-	**24,241,179**
Due from credit institutions	3,976,775	-	106,968	-	**4,083,743**
Loans to customers	55,099,903	-	-	-	**55,099,903**
Investment securities:					
- designated at fair value through profit or loss	-	-	9,924,610	-	**9,924,610**
- available-for-sale	-	41,191,570	-	-	**41,191,570**
- held-to-maturity	30,128	-	-	200,784	**230,912**
Other financial assets	404,182	-	-	-	**404,182**
Total	**83,752,167**	**41,191,570**	**10,031,578**	**200,784**	**135,176,099**

(thousands of Ukrainian hryvnia, unless otherwise stated)

Assets by measurement categories as at 31 December 2014:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through profit or loss*	*Total*
Cash and cash equivalents	16,790,414	-	-	16,790,414
Due from credit institutions	1,850,743	-	116,908	1,967,651
Loans to customers	49,973,792	-	-	49,973,792
Investment securities:				
- designated at fair value through profit or loss	-	-	6,882,115	6,882,115
- available-for-sale	-	40,426,199	-	40,426,199
- held-to-maturity	820,866	-	-	820,866
Other financial assets	48,697	-	-	48,697
Total	**69,484,512**	**40,426,199**	**6,999,023**	**116,909,734**

As at 31 December 2015 and 31 December 2014, all financial liabilities of the Bank were carried at amortized cost, except for deposits in gold, which belong to the fair value through profit or loss measurement category.

30. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if they are under common control or if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with Ukrainian government-related entities (both directly and indirectly controlled by and under significant influence of the Government) and key management personnel.

The outstanding balances of key management personnel as at 31 December 2015 and 2014, and related income and expense for the years ended 31 December 2015 and 2014, are as follows:

	31 December 2015	*31 December 2014*
	Key management personnel	*Key management personnel*
Loans to customers	170	-
Less: Allowance for impairment	(23)	-
Loans to customers, net	**147**	**-**
Current accounts	21,758	18,160
Time deposits	2,666	6,016
Amounts due to customers	**24,424**	**24,176**

	2015	*2014*
	Key management personnel	*Key management personnel*
Interest income on loans	2	1
Interest expense on customers' deposits	(153)	(854)
Translation differences	(10,466)	(8,210)

The aggregate remuneration and other benefits paid to key management personnel for the year ended 31 December 2015 is UAH 24,400 thousand (UAH 314 thousand payment to non-state pension fund) (for the year ended 31 December 2014: UAH 29,530 thousand (UAH 365 thousand payment to non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of the Ukraine and entities controlled or significantly influenced by it. The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, operation with securities, cash and settlement transaction.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2015 are disclosed below:

Client	*Sector*	*Cash and cash equiva-lents*	*Due from credit institu-tions*	*Loans to custo-mers*	*Amounts due to custo-mers*	*Amounts due to NBU*	*Amounts due to credit institu-tions*	*Guaran-tees issued*
Client 1	State enteties	-	-	-	1,958,950	-	-	-
Client 2	State enteties	-	-	-	1,838,815	-	-	-
Client 3	Agriculture and food industry	-	-	-	25,459,305	-	-	-
Client 4	Finance	8,440,141	-	-	-	2,979,775	-	-
Client 5	Finance	-	2,262,063	-	-	-	-	-
Client 6	Extractive industry	-	-	9,436,665	-	-	-	-
Client 7	Extractive industry	-	-	1,080,080	-	-	-	-
Client 8	Trade	-	-	538,455	851,219	-	-	1,538,646
Client 9	Trade	-	-	-	-	-	-	722,621
Client 10	Mechanical engineering	-	-	2,002,138	-	-	-	472,454
Client 11	Power engineering	-	-	1,543,572	-	-	-	-
Client 12	Road construction	-	-	1,053,974	-	-	-	-
Other	-	-	-	560,884	6,828,540	-	238,378	-

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2014 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Guarantees issued*
Client 1	State enteties	-	-	-	1,395,399	-	-
Client 3	Agriculture and food industry	-	-	-	16,507,911	-	-
Client 4	Finance	2,128,691	-	-	-	5,248,980	-
Client 5	Finance	-	790,000	-	-	-	-
Client 6	Extractive industry	-	-	6,214,992	-	-	-
Client 7	Extractive industry	-	-	708,723	-	-	-
Client12	Road construction	-	-	2,067,172	-	-	-
Client 9	Trade	-	-	-	-	-	168,001
Client 8	Trade	-	-	-	518,716	-	650,822
Client13	Trade	-	-	-	448,793	-	-
Client11	Power engineering	-	-	1,330,652	-	-	36,482
Client10	Mechanical engineering	-	-	1,044,373	-	-	315,295
Client14	Transport and commu-nications	-	-	712,751	-	-	-
Client15	Transport and commu-nications	-	-	-	467,988	-	-
Other	-	-	-	603,443	4,243,958	-	-

(thousands of Ukrainian hryvnia, unless otherwise stated)

For the twelve-month period ended 31 December 2015, the Bank recorded UAH 2,332,037 thousand of interest income (for the twelve month period ended 31 December 2014: UAH 1,455,920 thousand), including interest income from operations with the NBU deposit certificates with maturity up to 90 days – UAH 247,309 thousand (for the twelve-month period 2014: UAH 14,795 thousand) and UAH 2,628,673 thousand of interest expenses (for the twelve months period ended 31 December 2014: UAH 2,154,307 thousand) from significant transactions with the government-related entities.

As at 31 December 2015 and 2014, the Bank's investments in debt securities issued by the government or the government-related corporate entities were as follows:

	31 December 2015	*31 December 2014*
Available-for-sale investment securities	39,562,151	34,585,181
Investment securities designed at fair value through profit or loss	9,924,610	6,882,115
Investment securities held to maturity	230,912	820,866

Carrying value of government bonds, which are included in investment securities designated at fair value through profit or loss and investment securities available for sale is disclosed in Note 9.

For the twelve-month period ended 31 December 2015, the Bank recorded UAH 3,371,185 thousand (for the twelve-month period 2014: UAH 2,111,974 thousand) of interest income from transactions with government bonds, and UAH 816,307 thousand from transactions with other investment securities (for the twelve-month period 2014: UAH 880,392 thousand) of interest income.

31. Capital adequacy

The Bank pro-actively manages its exposures to ensure it that it maintains an adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business activities.

The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

During 2015 capital adequacy of the Bank as well as whole banking system significantly decreased due to Ukrainian Hryvnia depreciation and worsening of economical situation. In 2014 the Bank complied with all externaly imposed capital requirements.

NBU capital adequacy ratio

In 2015 the NBU performed diagnostic of 20 largerst banks of Ukraine, including the Bank. Certain requirements for the minimum capital adequacy ratio were applied for the banks that took part in diagnostic of the NBU.

As at 31 December the Bank's regulatory capital adequacy ratio on this basis was as follows:

	31 December 2015	*31 December 2014*
Main capital	1,141,141	10,918,490
Additional capital, calculated	8,709,529	5,646,643
Additional capital included in the calculation of total capital (limited to main capital)	1,141,141	5,646,643
Total capital	**2,282,282**	**16,565,133**
Risk weighted assets	**94,789,952**	**89,483,029**
Capital adequacy ratio	2.41%	18.51%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses and Tier 2 capital (Additional capital), consisting of provisions against highest quality credit operations, asset revaluation reserve, current year profit, subordinated debt and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratios, computed in accordance with the Basel Capital Accord 1988 were as follows:

	31 December 2015	***31 December 2014***
Tier 1 capital	(3,725,162)	10,319,983
Tier 2 capital, calculated	664,823	4,803,520
Tier 2 capital included in the calculation of total capital	-	4,803,520
Total capital	**(3, 725,162)**	**15,123,503**
Risk weighted assets	**89,889, 011**	**84,901,881**
Tier 1 capital ratio	-4.14%	12.16%
Total capital ratio	-4.14%	17.81%

As disclosed in Note 9, the Bank's securities portfolio includes investment securities designated at fair value through profit and loss which represent Ukrainian state bonds, principal of which will be indexed according to increases in the average interbank exchange rate of Hryvnia to United States dollar per month, prior to the month of issue, and the average exchange rate of Hryvnia to United States dollar per month, prior to maturity month. In 2015 there was repayment of part of these bonds and the Bank realised in cash the respective difference in exchange rate. Taking this into account, the Bank considers these bonds as a hedging instrument and thus includes them in the calculation of currency risk for the purposes of capital adequacy ratio.

Capital ratio and total capital ratio as at 31 December 2015 aquired negative values, the reason for this was the significant devaluation of the national currency and the deterioration of aconomic situation in Ukraine, that has a significant negative impact on the Bank's loan portfolio, causes the increase in the allowance for impairment of loans, and as consequence increase accumulated deficit of the Bank.

32. Subsequent events

In January 2016, according to the Resolution of the Cabinet of Ministers of Ukraine No 33 dated 27 January 2016 the Bank's share capital was increased by UAH 9,318,999 thousand through issue of 6,373,970 new shares with nominal value of UAH 1,462.04 each with 100% of these shares kept by the State.

The State of Ukraine acquired the additional issue of shares, that increased the share capital of the Bank, by exchanging them to Ukrainian state bonds with indexed value in the nominal amount of UAH 9,319,000 thousand with maturity of 10 years and coupon rate of 6% p.a.

As at 1 February 2016 the Bank's capital adequacy ratio according to the NBU requirements was 10,47%.

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