National Bank of Ukraine

Consolidated Financial Statements
for the Year Ended 31 December 2017

These consolidated financial statements contain 73 pages.

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Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of the National Bank of Ukraine and its subsidiary as at 31 December 2017, and the consolidated results of its operations, cash flows, and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the consolidated financial position and financial performance of the National Bank of Ukraine and its subsidiary;
- Stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the ability of the National Bank of Ukraine and its subsidiary to continue as a going concern in the foreseeable future.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the National Bank of Ukraine and its subsidiary;
- Maintaining adequate accounting records that are sufficient to show and explain the transactions of the National Bank of Ukraine and its subsidiary and disclose with reasonable accuracy at any time the consolidated financial position of the National Bank of Ukraine and its subsidiary, and which enable them to ensure that the consolidated financial statements of the National Bank of Ukraine and its subsidiary comply with IFRS;
- Maintaining statutory accounting records in compliance with the legislation of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the National Bank of Ukraine and its subsidiary; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the National Bank of Ukraine for the year ended 31 December 2017 was approved and authorized for issue by management of the National Bank of Ukraine on 11 April 2018.

On behalf of the Board of the National Bank of Ukraine:

Y. V. Smolii,
Governor

11 April 2018

B. V. Lukasevych,
Chief Accountant – Director of Accounting Department

11 April 2018

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INDEPENDENT AUDITOR'S REPORT

To the Council and the Board of the National Bank of Ukraine:

Opinion

We have audited the consolidated financial statements of the National Bank of Ukraine and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in 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 consolidated financial position of the National Bank of Ukraine and its subsidiary as at 31 December 2017, and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 National Bank of Ukraine and its subsidiary in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "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.

Responsibility of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of these 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 ability of the National Bank of Ukraine and its subsidiary to continue as a going concern, disclosing, as applicable, matters relating to going concern, and using the going concern basis of accounting, unless those charged with governance either intend to liquidate the National Bank of Ukraine and its subsidiary or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the National Bank of Ukraine and its subsidiary.

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 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 ability of the National Bank of Ukraine and its subsidiary 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 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 National Bank of Ukraine and its subsidiary to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and contents of the consolidated financial statements, 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 consolidated financial information of the National Bank of Ukraine and its subsidiary to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit of the National Bank of Ukraine and its subsidiary. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

Deloitte & Touche

11 April 2018

Україна * Приватне акціонерне товариство * м. Київ * "Делойт енд Туш Юкрейніан Сервісез Компані" Ідентифікаційний код 25642478

Certified Auditor Yevhen Zanoza

Certificate of Banks' Auditor No. 0018
issued by the Audit Chamber of Ukraine
on 29 October 2009, valid until 1 January 2020

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48, 50a Zhylianska St., Kyiv, 01033, Ukraine

	Notes	**2017**	2016
			(in UAH millions)
Assets			
Funds and deposits in foreign currency and investment metals	5	**25 168**	50 958
Foreign securities	6	**414 455**	275 329
SDR holdings	7	**60 860**	73 546
Monetary gold		**28 404**	24 353
Domestic securities	8	**372 697**	394 454
Loans to banks and other borrowers	9	**32 417**	35 456
Internal state debt		**1 926**	2 002
IMF quota contributions	10	**80 415**	73 538
Property and equipment and intangible assets	11	**5 421**	5 946
Other assets	12	**5 238**	4 966
Total assets		**1 027 001**	940 548
Liabilities			
Banknotes and coins in circulation		**361 544**	341 059
Accounts of banks	13	**39 994**	44 305
Accounts of government and other institutions	14	**56 124**	48 549
Liabilities on profit distribution to the State Budget of Ukraine	19	**44 614**	44 379
Certificates of deposit issued by the National Bank	15	**67 024**	68 073
Borrowings received	16	**2 807**	–
Liabilities to the IMF except for quota contributions	17	**206 245**	169 757
Liabilities to the IMF in respect to quota contributions	17	**80 411**	73 538
Other liabilities	18	**3 308**	3 232
Total liabilities		**862 071**	792 892
Equity			
Statutory capital	20	**100**	100
General and other reserves	20	**53 053**	54 255
Revaluation reserves for assets and liabilities	20	**111 740**	93 265
Total equity		**164 893**	147 620
Non-controlling interest		**37**	36
Total equity		**164 930**	147 656
Total equity and liabilities		**1 027 001**	940 548

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 11 April 2018.

Governor Y. V. Smolii

Chief Accountant – Director of Accounting Department B. V. Lukasevych

The accompanying notes on pages from 9 to 73 are an integral part of these consolidated financial statements.

	Notes	**2017**	2016
			(in UAH millions)
Interest income	22	**53 717**	60 050
Interest expense	22	**(11 631)**	(13 344)
Net interest income, before unwinding/(provisioning)		**42 086**	46 706
Net decrease in provisions for loans to banks and other borrowers	26	**3 151**	875
Net interest income, after unwinding/(provisioning)		**45 237**	47 581
Fee and commission income		**429**	383
Fee and commission expense		**(41)**	(65)
Net fee and commission income		**388**	318
Gains on operations with financial assets and liabilities in foreign currency and monetary gold		**14 344**	23 545
Gains on operations with debt securities at fair value		**2 657**	2 323
Gains on operations with financial instruments, other than debt securities, at fair value		**2 035**	(67)
Other income	23	**1 252**	732
Total net income		**65 913**	74 432
Staff costs	24	**(1 367)**	(1 433)
Costs related to production of banknotes, coins, souvenirs, and other products		**(961)**	(971)
Administrative and other expenses	25	**(1 259)**	(969)
Charging provisions for contingent liabilities	18	**(31)**	(2 594)
Net increase in provisions for other assets	26	**(2)**	(11)
Profit before income tax		**62 293**	68 454
Income tax expense of subsidiaries		**(2)**	(1)
Profit for the year		**62 291**	68 453
Other comprehensive income not to be reclassified subsequently to profit or loss:			
Revaluation of investment metals		**(212)**	736
Other comprehensive income for the year		**(212)**	736
Total comprehensive income for the year		**62 079**	69 189
Profit for the year attributable to:			
National Bank of Ukraine		**62 290**	68 452
Non-controlling interest		**1**	1
		62 291	68 453
Comprehensive income attributable to:			
National Bank of Ukraine		**62 078**	69 188
Non-controlling interest		**1**	1
		62 079	69 189

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Governor Y. V. Smolii

Chief Accountant – Director of Accounting Department B. V. Lukasevych

Deputy Director – Head of Office of Financial Controlling Department T. V. Usachova

The accompanying notes on pages from 9 to 73 are an integral part of these consolidated financial statements.

	Notes	**2017**	2016
		(in UAH millions)	
Operating activities			
Profit for the year		**62 291**	68 453
Adjustments for:			
Depreciation and amortization	11	**490**	559
Net decrease in provisions for assets	26	**(3 149)**	(864)
Adjustment of interest income on impaired loans to banks	9	**(2 576)**	(867)
Change in accrued income		**684**	**(274)**
Change in accrued expense		**364**	**(128)**
Gain/(loss) on revaluation of operations with derivatives		–	**1 467**
Gains on revaluation of debt securities carried at fair value		**629**	**(447)**
Unrealized loss on revaluation of financial assets and liabilities in foreign currency and monetary gold		**(19 718)**	**(7 387)**
Provisions for potential litigation costs	18	**31**	**2 594**
Other non-cash movements		**(19)**	**(22)**
Net cash inflows before changes in operating assets and liabilities		**39 027**	63 084
Net decrease in loans to banks and other borrowers		**8 784**	29 881
Repayment of internal state debt		**132**	132
Net decrease/(increase) in other assets		**465**	(250)
Net (decrease)/increase in accounts of banks on demand (other than interest accrued)		**(3 569)**	12 494
Net increase/(decrease) in accounts of government and other institutions		**4 861**	(8 055)
Net increase/(decrease) in other liabilities		**47**	(2)
Net cash inflows from operating activities before transfers to the State Budget of Ukraine		**49 747**	97 284
Cash transfers to the State Budget of Ukraine	19	**(44 379)**	(38 164)
Net cash inflows from operating activities		**5 368**	59 120
Investing activities			
Net decrease in term deposits placed		**68**	16 938
Net increase in foreign securities		**(89 764)**	(59 308)
Purchase of domestic securities	8	**(3 949)**	(25 800)
Sale and redemption of domestic securities		**24 640**	37 648
Purchase of monetary gold		**(78)**	(458)
IMF quota contributions	17,10	–	(18 938)
Investments in subsidiaries		**(54)**	–
Acquisition of property and equipment and intangible assets		**(13)**	(302)
Net cash outflows from investing activities		**(69 150)**	(50 220)

	Notes	**2017**	2016
			(in UAH millions)
Financing activities			
Issue of banknotes and coins in circulation		**20 484**	32 822
Repayment of liabilities to the IMF	17	**(8 194)**	–
Proceeds from the funds received under the IMF's loans	17	**26 204**	25 563
IMF accounts No. 1, No. 2		–	47
Net change in term deposits attracted/(placed)		**(797)**	764
Net change in certificates of deposit issued by the National Bank of Ukraine		**(1 022)**	(21 317)
Other borrowings received/(repaid)		**2 712**	(31 230)
Net cash inflows from financing activities		**39 387**	6 649
Effect of changes in exchange rates on cash and cash equivalents		**13 923**	18 244
Net (decrease)/increase in cash and cash equivalents		**(10 472)**	33 793
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the reporting year	21	**145 442**	111 649
Cash and cash equivalents at the end of the reporting year	21	**134 970**	145 442

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 11 April 2018.

Governor Y. V. Smolii

Chief Accountant – Director of Accounting Department B. V. Lukasevych

	Notes	Statutory capital	General and other reserves	Revaluation reserve for assets and liabilities	Total equity attributable to the NBU	Non-controlling interest	Total equity
							(in UAH millions)
Balance as at 1 January 2016		**100**	**39 185**	**83 526**	**122 811**	**35**	**122 846**
Total comprehensive income for 2016		–	68 452	736	69 188	1	**69 189**
Realized gain/(loss) on investment metals disposed	19	–	286	(286)	–	–	–
Realized gain/(loss) on revaluation of securities disposed and derivatives	19	–	341	(341)	–	–	–
Allocation of unrealized gain/(loss) on revaluation of securities to revaluation reserve	19	–	(537)	537	–	–	–
Allocation of unrealized gain/(loss) on operations with derivatives to revaluation reserve	19	–	(1)	1	–	–	–
Compensation of unrealized gain/(loss) on revaluation of assets and liabilities in foreign currency and monetary gold at the cost of revaluation reserve	19	–	2 350	(2 350)	–	–	–
Allocation of unrealized gain/(loss) on revaluation of assets and liabilities in foreign currency and monetary gold to revaluation reserve	19	–	(11 442)	11 442	–	–	–
Liability of the National Bank of Ukraine on profit distribution to the State Budget of Ukraine for 2016	19	–	(44 379)	–	(44 379)	–	**(44 379)**
Balance as at 31 December 2016		**100**	**54 255**	**93 265**	**147 620**	**36**	**147 656**
Total comprehensive income for 2017		–	62 290	(212)	62 078	1	**62 079**
Result on transfer of assets	11	–	(191)	–	(191)	–	**(191)**
Realized gain/(loss) on investment metals disposed	19	–	239	(239)	–	–	–
Realized gain/(loss) on revaluation of securities disposed and derivatives	19	–	398	(398)	–	–	–
Allocation of unrealized gain/(loss) on revaluation of securities to revaluation reserve	19	–	(412)	412	–	–	–
Allocation of unrealized gain/(loss) on operations with derivatives to revaluation reserve	19	–	(286)	286	–	–	–
Compensation of unrealized gain/(loss) on revaluation of assets and liabilities in foreign currency and monetary gold at the cost of revaluation reserve	19	–	166	(166)	–	–	–
Allocation of unrealized gain/(loss) on revaluation of assets and liabilities in foreign currency and monetary gold to revaluation reserve	19	–	(18 792)	18 792	–	–	–
Liability of the National Bank of Ukraine on profit distribution to the State Budget of Ukraine for 2017	19	–	(44 614)	–	(44 614)	–	**(44 614)**
Balance as at 31 December 2017		**100**	**53 053**	**111 740**	**164 893**	**37**	**164 930**

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 11 April 2018.

Governor Y. V. Smolii

Chief Accountant – Director of Accounting Department B. V. Lukasevych

1 Principal activities

The National Bank of Ukraine (the "NBU") is the central bank of Ukraine and operates in accordance with the Constitution of Ukraine, the Law of Ukraine *On the National Bank of Ukraine*, and other laws of Ukraine. In accordance with the Ukrainian legislation, the primary function of the NBU is ensuring stability of the national currency of Ukraine. In fulfilling its primary function, the NBU shall proceed from priorities in achieving and maintaining price stability in the country. The NBU shall facilitate stability of the banking system and sustainability of economic growth, as well as support the economic policies of the Cabinet of Ministers of Ukraine provided that it does not prevent the NBU from carrying out its primary function of maintaining price stability.

The NBU does not aim to earn profits. The financial results of the NBU's activities, as well as the structure of its assets, liabilities, and equity are defined by the functions of the NBU as a special central government authority.

In accordance with the Law of Ukraine *On the National Bank of Ukraine*, the main functions of the NBU are as follows:

Determine and carry out monetary policies in accordance with the Monetary Policy Fundamentals developed by the NBU's Council;

In its capacity as a monopoly, issue the national currency of Ukraine and arrange for its circulation;

Ensure accumulation and maintenance of foreign (gold and foreign currency) reserves (hereinafter referred to as "international reserves") and perform operations with international reserves and investment metals;

Be a lender of last resort to banks and organize a system of refinancing;

Exercise banking regulation and supervision on an individual and consolidated basis;

Represent Ukraine with other central banks, international banks, and other credit institutions where cooperation is maintained among central banks;

Exercise other functions in financial and credit areas within the competence defined by the Law of Ukraine *On the National Bank of Ukraine*.

According to the Law of Ukraine *On the National Bank of Ukraine*, the NBU grants loans to banks to support their liquidity, purchases and sells securities, foreign currency valuables, and investment metals in the open market, sells commemorative coins made of precious and non-precious metals in domestic and foreign markets, performs operations on servicing the state debt in respect of placement of government securities, their redemption, and payment of interest, maintains accounts of the State Treasury of Ukraine and accounts of international organizations, and conducts other operations required to perform its functions. The NBU also performs the functions of a depository for government securities of Ukraine.

The statutory capital of the NBU is owned by the State.

In accordance with the Constitution of Ukraine, the main task of the NBU's Council is to develop Monetary Policy Guidelines and exercise control over implementation of monetary policies. In addition, in accordance with the Law of Ukraine *On the National Bank of Ukraine*, the NBU's Council shall approve, on an annual basis, the NBU's budget of income and expenditures for the next year, take decisions on allocation of distributable profits to increase the NBU's statutory capital and create provisions to finance the investments aimed at supporting the NBU's activities, approve annual financial statements of the NBU, report on fulfilment of the NBU's budget of income and expenditures and distribution of profit for the reporting year, and approve decisions of the NBU's Board on the NBU's participation in international financial organizations, as well as perform other functions according to its authority as defined by Ukrainian legislation. The NBU Council establishes the Audit Committee with the purpose of assessing reliability and efficiency of internal controls within the NBU, as well as completeness and accuracy of the annual financial statements of the NBU.

1 Principal activities (continued)

As at 31 December 2017 and 2016 the NBU is composed of Central Administrative Office and a standalone unit (the Banknote Printing and Minting Works), which perform their activities solely within the NBU's tasks and functions in accordance with the Law of Ukraine *On the National Bank of Ukraine*.

The NBU's subsidiary is SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS PJSC (the "Settlement center"). In July 2017 according to the Laws of Ukraine *On Depository System in Ukraine* and *On Simplification of Procedures of Banks' Reorganization and Capitalization*, the NBU acquired 53 600 shares of the Settlement Center through purchase of ordinary shares of the Settlement Center, with the NBU's share in statutory capital of Settlement Center going up to 83.55% (from 77.79% as at 31 December 2016).

The statutory capital of the Settlement Center amounts to UAH 206.7 million (as at 31 December 2016 – UAH 153.1 million) and comprises ordinary registered shares with a par value of UAH 1 000 each.

The exclusive competency of the Settlement Center includes making settlements under transactions with securities and other financial instruments exercised on stock exchanges and over-the-counter, provided settlements are effected using the "delivery versus payment" principle. The Settlement Center opens and maintains cash accounts for stock exchange participants. In addition, it ensures the payment of returns on securities and repayment of the nominal value when securities are redeemed or an issuer performs other corporate transactions, including the securities placed and circulating outside Ukraine.

The NBU is a founder of the Corporate Non-State Pension Fund of the NBU (hereinafter, the "CNPF"). The NBU acts as an administrator and custodian of the CNPF.

The NBU has analyzed the availability of control under IFRS 10 *Consolidated Financial Statements* in respect to the CNPF. The NBU is a founder, but it is neither exposed, nor has rights, to variable returns of its operations. According to IFRS 10, the NBU has no control over the CNPF and correspondingly, the CNPF has not been consolidated in these consolidated financial statements.

As at 31 December 2017 and 2016, the NBU's investments in associates were represented by the German-Ukrainian Fund and Public Joint Stock Company National Depository of Ukraine.

The German-Ukrainian Fund (the "GUF") was established by the Cabinet of Ministers of Ukraine as represented by the Ministry of Finance, the NBU, and Kreditanstalt fur Wiederaufbau (the "KfW") (registered in Germany). The area of core activities of the GUF is improvement of competitiveness of Ukrainian small and medium enterprises by means of their financing through appointed Ukrainian banks using the GUF funds. According to the Charter, the GUF does not have an objective of generating profits. Profits of the GUF are allocated to increase the lending pool for small and medium enterprises. As at 31 December 2017, the NBU's share in the GUF's statutory capital amounted to 31.25% (31 December 2016: 31.25%).

The NBU, the National Commission for Securities and Stock Market, and other participants of the stock market are shareholders of National Depository of Ukraine Public Joint Stock Company (hereinafter, the "National Depository"). In accordance with the Charter, the National Depository is engaged in depository accounting, accounting for securities and corporate transactions of issuers on securities accounts of the customers.

As at 31 December 2017, the NBU owned 2 580 ordinary registered shares in the National Depository with the nominal value of UAH 10,000 each for the total amount of UAH 25.8 million (2016: 2 580 ordinary registered shares in the National Depository with the nominal value of UAH 10,000 each for the total amount of UAH 25.8 million). As at 31 December 2017, the NBU's share in the statutory capital of the National Depository was 25% (31 December 2016: 25%).

Consolidated financial statements are approved by the NBU Council.

2 Basis of presentation and a summary of significant accounting policies

The consolidated financial statements of the NBU have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (hereinafter, the “IASB”).

These consolidated financial statements have been prepared based on the assumption that the NBU is a going concern and will continue in operation in the foreseeable future.

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets classified as financial assets at fair value through profit or loss. The consolidated financial statements are presented in the national currency of Ukraine, Ukrainian hryvnia (hereinafter, “UAH”), which is the functional and presentation currency. These consolidated financial statements of the NBU are presented in millions of Ukrainian hryvnias (hereinafter, “UAH millions”).

Basis of consolidation

These consolidated financial statements include the financials statements of the NBU and its subsidiaries as at 31 December 2017

Subsidiaries are the companies controlled by the NBU. The existence of control is determined when the following conditions are met simultaneously:

Existence of power over the investee;

Rights to variable returns from involvement in the investee and exposure to respective risks;

Ability to use its powers over the investee to make an impact on the NBU’s performance.

Consolidation of the subsidiaries begins when the NBU obtains control over them (commonly on the date of acquisition) and ceases when the NBU loses control over the subsidiaries.

Changes in ownership interest in a subsidiary, without a loss of control, are accounted for as an equity transaction. Losses of the subsidiary are attributable to non-controlling interest even if they result in the non-controlling interest having a deficit balance.

If the National Bank loses control over the subsidiary, it derecognizes the assets and liabilities of the subsidiary (including goodwill), the carrying amount of non-controlling interests, recognizes the fair value of the consideration received, the fair value of any investment retained, and any surplus or deficit on the transaction in profit or loss; reclassifies the share of the National Bank in the components previously recognized in other comprehensive income to profit or loss. In the event a subsidiary is disposed of via the transfer of control to the State as represented by the Cabinet of Ministers of Ukraine or other government authorities, a gain or loss on such a transaction is included in equity.

Intragroup balances, including income and expense on transactions between subsidiaries, are eliminated on consolidation. The NBU and its subsidiaries use uniform accounting policies in preparing the consolidated financial statements. The financial statements of the subsidiaries have been prepared for the same reporting period as the NBU’s consolidated financial statements.

Investments in associates

Associates are the entities over which the NBU has significant influence. Significant influence means the power to participate in the financial and operating policy decisions of the investee, but it does not mean control or joint control over those policies.

Investments in associates are accounted for under the equity method and recognized in other assets. Subsequent changes in the carrying value reflect the post-acquisition changes in the NBU’s share in net assets of an associate. The NBU’s share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of comprehensive income as other income or expense. The NBU’s share in other changes in the associates’ equity that have occurred from the date of investments is recorded in the consolidated statements of comprehensive income and changes in equity. However, if the NBU’s share in losses of an associate equals or exceeds its interest in the associate, the NBU does not recognize further losses, except where the NBU is obliged to make further payments to, or on behalf of, the associate.

2 Basis of presentation and a summary of significant accounting policies (continued)

Key valuation techniques

Depending on their classification, financial assets and liabilities are carried at fair value or amortized cost.

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The market in which the NBU would normally enter into transactions to sell the asset or transfer the liability is presumed to be the principal market or, in absence of a principal market, the most advantageous market. The NBU should have access to the principal or the most advantageous market at the date of measurement. The NBU measures fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If there is a principal market for the asset or liability, the fair value represents the price in that market (regardless whether that price is directly observable, or it is estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

Such valuation techniques as discounted cash flows and consideration of financial data of the investees are used to measure fair values of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changes in any such assumptions to a reasonably possible alternative may result in significantly different amounts of profit, income, expense, total assets, or total liabilities.

The NBU uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair values, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement taken as a whole:

Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of a financial asset or financial liability. The incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or storage costs.

2 Basis of presentation and a summary of significant accounting policies (continued)

Amortized cost is the amount at which the financial asset or liability was recognized at initial recognition, less any principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and for financial assets, less any write-down for the impairment losses incurred.

The effective interest rate method is a method of calculating amortized cost of financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future financial assets related losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial asset or financial liability.

Transactions in foreign currency and monetary gold

Monetary assets and liabilities denominated in foreign currency and monetary gold are initially recognized at the official exchange rates of UAH against foreign currencies (gold) at the date of settlement – the date of initial recognition of assets and liabilities. Subsequently, they are revalued after each change in the official exchange rate*.

Monetary assets and liabilities in foreign currency and monetary gold are carried in the consolidated financial statements at the official exchange rates of UAH against foreign currencies (gold) set by the NBU at the date of the consolidated statement of financial position.

Monetary gold consists of the stocks of gold bars of the international standard and coins of not lower than 995 standard owned by the NBU and forming a part of international reserves. Transactions in monetary gold may be performed only among monetary authorities of different countries or among those authorities and international monetary institutions.

Gold owned by the NBU but not forming its reserve assets does not belong to monetary gold.

Monetary gold is recorded in physical weight in troy ounces and is measured in UAH at the official exchange rate of the NBU. The official exchange rate is calculated based on the information on gold prices as determined (fixed) by participants of the London Bullion Market Association in USD translated into UAH at the NBU's official UAH/USD exchange rate.

Interest-bearing placements in gold with foreign banks are included in foreign currency funds and deposits and recorded in the consolidated financial statements at the official exchange rate of UAH against foreign currencies as at the date of the consolidated statement of financial position.

The principal official exchange rates of UAH against foreign currencies (gold) used for translating the monetary items of the consolidated statement of financial position and monetary gold were as follows:

	31 December 2017 (UAH)	31 December 2016 (UAH)
USD 1	**28.067223**	27.190858
SDR 1	**39.971493**	36.553534
EUR 1	**33.495424**	28.422604
1 troy ounce of gold	**36 234.785**	31 158,004

*As at 31 December of both 2017 and 2016, the official exchange rate of UAH against USD was set at the exchange rate determined as average weighted rate of purchases and sales on "tod", "tom", and "spot" terms at the time of establishment under all arrangements entered into by market participants, as well as the market participants and the NBU that had been established based on the data of the system of deal confirmation in the interbank foreign exchange market of Ukraine at the National Bank of Ukraine. As at 31 December 2017 and 2016 the official exchange rate of UAH against other currencies was established based on the information about the official exchange rate of UAH against USD and the daily fixing exchange rates of currencies against EUR of the European Central Bank. As at 31 December 2017 and 2016, the official exchange rate of UAH against USD was set on each business day.

2 Basis of presentation and a summary of significant accounting policies (continued)

Gains or losses on revaluation of monetary assets and liabilities in foreign currency and monetary gold, as well as gold placed with foreign banks, due to changes in the official exchange rates of UAH against foreign currencies and gold are recognized as profit or loss in the consolidated statement of comprehensive income in the period in which they arise.

Operations with the International Monetary Fund

The NBU acts as a depository and fiscal agent of Ukraine (in respect of the funds received by the NBU) in the relationship of Ukraine with the International Monetary Fund (hereinafter, "the IMF"). All claims of Ukraine on and liabilities to the IMF in respect of the funds received by the NBU are recorded in the consolidated financial statements of the NBU. The IMF's asset balances include holdings of the Special Drawing Rights (hereinafter, "SDR") and IMF quota contributions. Liabilities to the IMF include the securities issued to the IMF by the NBU in settlement of quota and as a fiscal agent in respect of its borrowings and balances on the IMF's accounts No. 1 and No. 2. The IMF's account No. 1 is used for IMF transactions, including quota subscription payments, purchase and repurchase of funds. Account No. 2 is used for settlements with the IMF in the Ukrainian currency.

Assets and liabilities denominated in SDRs, including the IMF quota contributions, are translated into UAH at the NBU's official exchange rate of UAH against SDR at the date of the consolidated statement of financial position. The official exchange rate of UAH against SDR is calculated based on the information about the exchange rate of SDR against USD set by the IMF and the NBU's official UAH/USD exchange rate.

Interest received in respect of SDR holdings is recognized as interest income, and charges paid in respect of the use of the IMF's funds are recognized as interest and fee expense, as appropriate, in the consolidated statement of comprehensive income. Non-reimbursable fees under arrangement of SDR purchase are recorded as fee and commission expense. Expenses related to operations with the IMF are amortized using the effective interest rate method and recorded as interest expense.

Transactions with financial instruments

Financial assets of the NBU are classified depending on intentions of their acquisition as follows:

Funds and deposits in foreign currency

Funds and deposits in foreign currency are recorded when the NBU advances foreign currency funds to counterparty banks with no intention of trading them. Those funds are not related to derivative financial instruments, not quoted in the market, and repayable on fixed or determinable dates.

Debt securities at fair value

This category includes the securities which do not meet the criteria of measurement at amortized cost. The NBU manages a group of these financial instruments in accordance with a documented business model which is used for managing the NBU's financial assets and provides for sale of such securities in the short-term perspective.

The fair value of these securities is determined by reference to market quotations in the principal or most advantageous markets. Securities of this category may be reclassified to securities at amortized cost if a business model changes.

Debt securities at amortized cost

This category includes the securities in respect of which both of the following conditions are met:

Securities are held within the business model used for managing the NBU's financial assets under which securities are held to collect contractual cash flows;

Contractual terms give rise to cash flows on specified dates that are solely payments of securities' principal and interest on the principal amount outstanding.

2 Basis of presentation and a summary of significant accounting policies (continued)

Debt securities restructured

Restructured debt securities are recorded in the consolidated financial statements through de-recognition of the carrying amounts, as at the restructuring date, of the previously recognized debt securities and recognition of the fair values, as at the restructuring date, of the new financial instruments, provided the IFRS criteria for de-recognition and recognition of financial assets are complied with.

The difference between the carrying amounts of previously recognized debt securities and the fair values of new financial instruments is recorded in the consolidated statement of comprehensive income of the period of restructuring.

Loans to banks and other borrowers

Loans to banks and other borrowers are recorded when the NBU lends money to counterparty banks or other borrowers with the intention of obtaining contractual cash flows which are exclusively the payments to repay the principal amount and interest. These loans do not have embedded derivatives, are not quoted in the market, and are due on fixed or determinable dates.

Internal state debt

Internal state debt includes loans granted to the Government of Ukraine (hereinafter, the "Government"). Under these loans, the contractual cash flows are expected to be received which are exclusively the payments to repay the principal amount and interest. The internal state debt is initially recognized at fair value and subsequently measured at amortized cost.

Derivative financial instruments

Derivative financial instruments are represented by swaps, forwards, and futures contracts. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. All derivatives are recorded as assets if their fair values are positive and as liabilities if the fair values are negative.

Changes in the fair values of derivatives are included in the financial result of the consolidated statement of comprehensive income in the period when they arise

Recognition and measurement of financial instruments

Financial instruments are recognized as follows:

Transactions with financial instruments are recorded in the consolidated statement of financial position at a settlement date, which is the date when the ownership right to these assets is transferred to (from) the NBU, other than derivative financial instruments;

Debt securities, equity instruments, and other financial instruments at fair value are initially recorded at fair value;

Foreign currency denominated funds and deposits, debt securities at amortized cost, loans to banks and other borrowers, and all financial liabilities are initially recorded at fair value, plus transaction related costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). If the NBU determines that the fair value at initial recognition differs from the transaction price, it accounts for that instrument at that date as follows:

At the measurement value, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. The NBU recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;

In all other cases, at the measurement value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the NBU recognizes that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

2 Basis of presentation and a summary of significant accounting policies (continued)

Subsequent measurement of the NBU's financial instruments is as follows:

Debt securities and equity instruments at fair value are revalued after each change in their market price. Gains or losses from changes in fair value are recognized in profit or loss of the consolidated statement of comprehensive income in the period in which they arise;

Foreign currency denominated funds and deposits, debt securities at amortized cost, loans to banks and other borrowers, as well as the internal state debt are measured at amortized cost using the effective interest rate method.

Provisions for impairment of financial assets

Impairment losses are recognized in profit or loss in the consolidated statement of comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The objective evidence of impairment of financial assets is the information on the following loss events:

The borrower or issuer experiences significant financial difficulties;

Breach of contract by the borrower or breach by the securities issuer of the conditions of their issue;

The possibility of bankruptcy or other financial reorganization of the borrower or issuer;

The lender, for economic or legal reasons relating to the borrower's or issuer's financial difficulty, granting to the borrower or issuer a concession that the lender would not otherwise consider (such as a change in interest rate or extension of payment terms);

Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

Losses from impairment are recognized through the inclusion of the respective amount in expenses. The amount of provision for impairment is calculated as a difference between the financial asset's carrying amount and the present value of expected cash flows discounted at the original effective interest rate of the asset (current effective interest rate if the loans are granted at variable rates).

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment has been recognized, the previously recognized impairment loss is reversed by adjusting the provision account through profit or loss in the consolidated statement of comprehensive income.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed.

Revision of financial assets' terms and conditions

If financial assets terms are renegotiated and changed due to financial difficulties of a borrower, such financial assets are treated as impaired, and the respective impairment loss is calculated using the original effective interest rate determined before the revision. If loans are granted at floating rates, the impairment of such assets is calculated using the current effective interest rate. If revision of the terms is not caused by financial difficulties of the borrower, such financial assets are not considered impaired, and the carrying amount of such assets is adjusted.

The adjustment is determined as a difference between the present value of new cash flows at the revised terms discounted at the original effective interest rate (or the current effective interest rate, if loans are granted at floating rates), and the carrying value of the financial asset at the date of the terms' revision and is recognized in the consolidated statement of comprehensive income.

Repo transactions

Funds paid under the agreements for purchase and sale of securities with a subsequent repurchase obligation (hereinafter, "repo") are recorded as loans to banks. The difference between the purchase and resale prices is treated as interest income recognized over the life of the repo agreements using the effective interest rate method.

2 Basis of presentation and a summary of significant accounting policies (continued)

Funds received under repo agreements are included in accounts of banks in the consolidated statement of financial position. The securities sold under repo agreements are retained as the assets of the NBU. The difference between the sale and repurchase prices is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method.

Property and equipment

Property and equipment items are carried at historical cost, less accumulated depreciation and impairment loss.

Historical cost of acquired property and equipment items includes the costs incurred to acquire and bring them to use.

Costs of enhancement of any item of property and equipment which increases the expected economic benefits embodied in this item of property and equipment increase the asset's historical cost. Costs on minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalized and the residual value of the replaced part is charged to expenses in the consolidated statement of comprehensive income of the reporting period.

If impaired, property and equipment items are written down to the higher of their recoverable value and fair value, less costs to sell. A decrease in the carrying amount is recognized in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable value or fair value, less costs to sell.

Gains or losses on disposals determined as the difference between the proceeds and the asset's carrying amount are recognized in profit or loss of the consolidated statement of comprehensive income.

Construction in progress is carried at cost. Upon completion, assets are transferred to buildings and constructions at cost. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of property and equipment commences after the assets are available for use and is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings and structures	20–50 years;
Vehicles	7–28 years;
Machinery and equipment	4–20 years;
Tools, fixtures, and fittings	4–10 years;
Other fixed assets	2–25 years.

Land and construction in progress are not depreciated.

The residual value of an asset is the estimated amount that the NBU would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is equal to nil if the NBU expects to use the asset until the end of its physical life.

Intangible assets

All of the NBU's intangible assets have definite useful lives and primarily include computer software and licenses for its use.

The historical cost of acquired intangible assets includes the costs incurred to acquire and bring them to use. Acquired intangible assets are amortized on a straight-line basis over the expected useful lives from 3 to 8 years and subsequently measured at historical cost, less amortization and impairment loss.

Investment and other precious metals

Investment metals include stocks of gold, other than monetary, silver, platinum, and palladium held in the State Treasury of Ukraine. Investment metals are recorded in physical weight in troy ounces and are measured at the official exchange rate of the NBU. The official exchange rate is calculated based on the information on precious metal prices determined (fixed) by the participants of the London Bullion Market Association and participants of the London Platinum and Palladium Market and the NBU's official UAH/USD exchange rate.

2 Basis of presentation and a summary of significant accounting policies (continued)

The official exchange rates of investment metals to UAH at which investment metals are carried in the consolidated financial statements were as follows:

	31 December 2017	31 December 2016
1 troy ounce of gold	**36 234.785**	31 158.004
1 troy ounce of silver	**469.845**	436.685
1 troy ounce of platinum	**25 793.778**	24 444.581
1 troy ounce of palladium	**29 610.920**	18 353.829

Unrealized gains or losses on revaluation of investment metals due to changes in the official exchange rate of UAH against investment metals are included in other comprehensive income of the consolidated statement of comprehensive income in the period in which they arise. Realized gains or losses on revaluation of investment metals are transferred to retained earnings.

Interest-bearing placements in investment metals with foreign banks are included in funds and deposits in foreign currency and investment metals. The results of revaluation of investment metals placed with foreign banks due to changes in the official exchange rates of UAH against investment metals are recognized as profit or loss in the consolidated statement of comprehensive income in the period in which they arise.

Other precious metals include gold and other scrap metal and bars which are not of a recognized standard. Other precious metals are recognized as inventory and are carried at historical cost.

Investment and other precious metals are included in other assets in the consolidated statement of financial position.

Banknotes and coins in circulation

The amount of banknotes and coins in circulation represents the nominal value of banknotes and coins (small change, circulating, commemorative, and investment coins) that can be used as payment instruments and have been issued into circulation by the NBU after the introduction of UAH into circulation in September 1996. The banknotes and coins in circulation are recorded as liability at their nominal values when cash is issued by the NBU to banks and customers of the NBU. Cash in the national currency held in the NBU's vaults and cash offices, including transferred by National bank of Ukraine to authorized banks for cash handling, is not included in banknotes and coins in circulation.

Accounts of banks

Accounts of banks are recognized when funds are advanced to the NBU by counterparty banks. These liabilities are non-derivative and are initially recognized at fair value, including transaction costs and are subsequently measured at amortized cost.

Accounts of government and other institutions

Accounts of government and other institutions are non-derivative liabilities to government and other customers and are initially recognized at fair value, including transaction costs, and are subsequently measured at amortized cost.

Certificates of deposit issued by the NBU

Certificates of deposit issued by the NBU are initially recorded at fair value and are subsequently measured at amortized cost using the effective interest rate method. Upon redemption of certificates of deposit issued by the NBU, the difference between the consideration paid and the amortized cost is included in profit or loss in the consolidated statement of comprehensive income.

Borrowings received

Borrowings received are recognized when the NBU receives funds from other central banks and begins using them on the payment basis. Initially, they are measured at fair value, less transaction costs, and subsequently measured at amortized cost. When entering into bilateral borrowing agreements with other central banks, the parties are exposed to mutual irrevocable liabilities on lending the other party of the arrangement. Before the respective borrowings are granted by central banks that are parties under arrangements, future irrevocable liabilities on lending are not recognized in the consolidated statement of financial position.

2 Basis of presentation and a summary of significant accounting policies (continued)

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of comprehensive income on an accrual basis using the effective interest rate method for all debt instruments, except for debt securities at fair value through profit or loss. Interest income on debt securities at fair value through profit or loss is recognized in the consolidated statement of comprehensive income in the results from operations with debt securities at fair value.

All other fee and commission and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed as a relation of the actual service provided (received) to the total contractual services to be provided.

Costs related to production of banknotes, coins, souvenirs, and other products

The NBU produces the Ukrainian national currency banknotes and coins. Costs associated with the banknote and coin production (other than commemorative coins made of precious metals and investment coins) are charged to the NBU's expenses when the banknotes and coins produced are transferred by the Printing and Minting Works to the Central Vault of the NBU. Expenses for money issuance include depreciation of plant and machinery, staff costs, and other production costs.

Costs associated with the production of commemorative coins made of precious metals and investment coins are recorded as an asset in other assets line of the NBU's consolidated statement of financial position and are charged to expenses in the period when coins are sold.

Staff costs

Salaries, payments of single contribution to mandatory state social security funds, transfers of contributions to the NBU's Corporate Non-State Pension Fund, as well as expenses incurred on personnel training and development are recognized in the year in which the respective costs are incurred.

Corporate Non-State Pension Fund of the NBU

The NBU has established a Corporate Non-State Pension Fund, which represents a defined contribution plan. The NBU pays contributions to this fund on a contractual basis. The NBU has no further payment obligations once the contributions have been paid. The contributions are recognized as staff costs when they are due. Upon retirement of the NBU's employees, all benefits are paid by Corporate Non-State Pension Fund of the NBU.

The NBU acts as an administrator, asset manager, and custodian of Corporate Non-State Pension Fund of the NBU.

Costs related to contributions to mandatory state social funds

Under Ukrainian legislation, the NBU transfers the amount of the single contributions for mandatory state social security to the State Fiscal Service of Ukraine. The transfers made to the State Fiscal Service of Ukraine are expensed as incurred. The expenses on unified contribution for compulsory state social insurance are included in the consolidated statement of comprehensive income as staff costs.

Taxation

According to the Tax Code of Ukraine, the NBU makes settlements with the State Budget of Ukraine according to the Law of Ukraine *On the National Bank of Ukraine*.

The National Bank of Ukraine transfers distributable profits to the State Budget of Ukraine in accordance with the Law of Ukraine *On the National Bank of Ukraine*. The distributable profit is determined by decreasing profit by the amounts of unrealized gains for the reporting period transferred to revaluation reserves and by increasing profit by the amounts of compensation of unrealized losses on revaluation reserves and realized gains. These transfers are treated as distributions to owners and are recorded in the consolidated statement of changes in equity (Note 19).

2 Basis of presentation and a summary of significant accounting policies (continued)

The Law of Ukraine *On the National Bank of Ukraine* stipulates that, the NBU shall make transfers to general reserves until the amount of general reserves equals to 10 percent of the NBU's monetary liabilities. Upon creating the general reserves in the amount stipulated for by the Law of Ukraine *On the National Bank of Ukraine*, the distributable profit shall be transferred to the State Budget of Ukraine in full.

Other taxes payable by the NBU are recorded within administrative and other expenses.

Revaluation reserves for assets and liabilities

According to the Law of Ukraine *On the National Bank of Ukraine*, unrealized gains on revaluation of foreign currency and monetary gold due to changes in UAH against foreign currencies and monetary gold exchange rates during the reporting period, as well as unrealized gains on revaluation of securities and derivative financial instruments to their fair values, are transferred by the NBU to the revaluation reserve for assets and liabilities within equity in the consolidated statements of financial position and changes in equity.

The revaluation reserve is used to compensate for the unrealized losses from the revaluation of foreign currency, monetary gold, securities, and derivative financial instruments at fair value, should they accumulate during the reporting year.

The revaluation reserve for foreign currency sold, monetary gold, securities, and derivative financial instruments is included in distributable profit in the respective reporting periods.

Provisions for subsequent expenses

Provisions for subsequent expenses of the NBU include the amounts (Note 18) provided to:

Pay for annual (basic, additional, and social) vacations of its employees to ensure the recovery of subsequent expenses incurred on annual (basic, additional, and social) vacations unused by employees of the NBU's institutions in the prior years and carried forward to subsequent years, with reference to payment of a single contribution for general mandatory state social insurance. The NBU determines the amount of provision as an undiscounted amount of current payments to employees payable in accordance with the service performed by employees, net of any amounts already paid;

Reimburse for the loss of cash stored in cash reserves, currency handling offices, and automated telling machines of the NBU's offices in Donetsk and Luhansk oblasts, considering the situation as a result of their temporary occupation;

To repay under legal or constructive obligations (as a result of past events), in particular, under lawsuits, settlement of which will most probably result in an outflow of resources embodying economic benefits (a negative outcome is more expected than not), and their amount (expense) can be measured reliably. Costs on creating provisions are included in profit or loss in the consolidated statement of comprehensive income in the period when incurred.

Cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include financial assets on demand and maturing within three months from the origination date and which are available for use at short notice and are subject to insignificant risk of changes in value.

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 offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

2 Basis of presentation and a summary of significant accounting policies (continued)

Application of new and revised Standards and Interpretations

Revised IFRSs and Interpretations that became effective in 2017, with no significant effect on the NBU's consolidated performance and financial position

Amendments to IAS 7 *Statement of Cash Flows* – Disclosure initiative. The amendments clarify as to the need to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities;

Amendments to IAS 12 *Income Taxes* – Recognition of deferred tax assets for unrealized losses;

Annual Improvements to IFRSs 2014–2016 Cycle – IFRS 12 *Disclosure of Interests in Other Entities*. The amendments clarify as to the scope of disclosure requirements under IFRS 12. The amendments indicate that disclosure requirements on interests in other entities also refer to the interests classified as held for sale or distributable among owners.

Standards in issue but not yet effective

The NBU has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs in issue but not yet effective

The NBU has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 *Financial Instruments*[1];

IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];

IFRS 16 *Leases*[2];

Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];

Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];

IFRS 17 *Insurance Contracts*; – a new financial reporting standard for insurance contracts, which addresses issues of recognition and evaluation, presentation and disclosure[3];

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];

IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];

Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];

Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures* - an explanation that the decision to evaluate investment objects at fair value through profit or loss should be applied separately to each investment[2];

Amendments to IAS 40 – *Transfers of Investment Property*[1];

Annual Improvements to IFRSs 2014-2016 Cycle[1];

Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

2 Basis of presentation and a summary of significant accounting policies (continued)

The NBU will adopt the following new and revised Standards in issue, but not yet effective.

IFRS 9 *Financial Instrument*s applies to classification and measurement of financial assets and liabilities, hedge accounting, impairment of financial assets, and their de-recognition.

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and, in November 2013, to include the new requirements for general hedge accounting. In July 2014, the IASB issued a finalized version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

The key requirements of IFRS 9 are:

Classification and measurement of financial assets. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost after initial recognition. The 2014 version of IFRS 9 introduces a ‘fair value through other comprehensive income’ category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Classification and measurement of financial liabilities. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity’s own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.

Impairment. The 2014 version of IFRS 9 introduces an ‘expected credit loss’ model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

De-recognition. The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.

2 Basis of presentation and a summary of significant accounting policies (continued)

Depending on the approach applied, the transition may be performed simultaneously or on different dates for different requirements of the standard. The NBU adopted the 2010 version of IFRS 9 early in respect of classification and measurement of financial assets and liabilities in preparation of the consolidated financial statements for 2012.

The NBU performs preparatory work on the implementation of IFRS 9, in particular, it has:

Developed accounting policies in respect of financial instruments;

Analyzed management models and characteristics of cash flows under the NBU's financial assets with the purpose of their classification;

Developed models for measuring expected losses from both groups of financial assets with similar profiles and the assets assessed on an individual basis;

Determined a list of indicators and data containing historical, current, and forecasted data and procedures for their grouping and accumulating with the purpose of measuring expected credit losses.

The NBU does not expect a significant impact on the consolidated statements of financial position and changes in equity from adoption of IFRS 9 *Financial Instruments* regarding classification and measurement. The NBU expects the increase in the amount of provisions for expected credit losses, which will adversely affect the amount of equity. In addition, the NBU has reclassified government debt securities of Ukraine from the category classified as "Debt Securities of Ukraine at Fair Value through Profit or Loss" to the category of "Debt Securities at Amortized Cost". The NBU will continue measuring at fair value all the financial assets that have been currently measured at fair value.

In total, the application of the final version of IFRS 9 *Financial Instruments* as at 31 December 2017 is expected to have no significant impact on the consolidated financial statements, in particular:

	Notes	**31 December 2017**	**Adjustments**	**31 December 2017 (after adjustments)**
				(in UAH millions)
Assets				
Funds and deposits in foreign currency and investment metals	A	25 168	(3)	25 165
Domestic securities	B	372 697	(5)	372 692
Loans to banks and other borrowers	A	32 417	(1)	32 416
Other assets	A	5 238	(2)	5 236
Total assets		**435 520**	**(11)**	**435 509**

Influence on equity:

	Notes	**31 December 2017**	**Adjustments**	**31 December 2017 (after adjustments)**
				(in UAH millions)
Equity				
Statutory capital		100	–	100
General and other reserves	A, B	53 053	20	53 073
Revaluation reserves for assets and liabilities	B	111 740	(31)	111 709
Total equity		**164 893**	**(11)**	**164 882**

2 Basis of presentation and a summary of significant accounting policies (continued)

Notes to the impact on application of IFRS 9 *Financial Instruments*:

A Impact due to creating (decreasing/increasing) provisions for expected credit losses. The use of a model for expected credit losses will lead to changes in provisions and the decrease in book value for the total amount of UAH 6 million, which will, respectively, decrease retained earnings;

B The carrying amounts of securities of Ukraine will decrease by:

UAH 1 million due to creating an provision for expected credit losses;

UAH 4 million due to reclassifying a part of debt securities from the category classified as "Debt Securities of Ukraine at Fair Value through Profit or Loss" to the category of "Debt Securities at Amortized Cost".

This will lead to the decrease in the provision for revaluation of assets and liabilities by UAH 31 million and the increase in retained earnings by UAH 26 million.

IFRS 15 *Revenue from Contracts with Customers*. In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the Standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

Identify the contract with the customer;

Identify the performance obligations in the contract;

Determine the transaction price;

Allocate the transaction price to the performance obligations in the contracts;

Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. New disclosures about revenue are also introduced.

IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019, with early application permitted). IFRS 16 specifies how an IFRS reporter will recognize, measure, present, and disclose leases. The Standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS IC 22 *Foreign Currency Transactions and Advance Consideration*. The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, 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 is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognized. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. Entities may elect to apply amendments either retrospectively or prospectively.

2 Basis of presentation and a summary of significant accounting policies (continued)

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to IFRS 9 Prepayment Features with Negative Compensation. The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged, which does not lead to derecognition, and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset, which does not lead to derecognition, in particular an adjuastment of the gross carrying amount of a financial asset (amortized cost of a financial liability) will lead to an immediate gain or loss in profit or loss as of the date of the adjustment of the financial asset (financial liability).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Amendments to IAS 40 *Investment Property*. Transfers of investment property. The amendments are intended to clarify that an entity can only reclassify a property to/ from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments emphasize that a change in management's intentions alone would not be enough to support a transfer of property. The Standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive, the amendments make it clear that they are only examples. Entities may elect to apply them either retrospectively (if it is possible without the use of hindsight) or prospectively.

According to the management estimates adoption of the standards mentioned above in the future periods will not have a significant effect on the consolidated financial statements.

3 Critical accounting estimates and judgments in applying accounting policies

The NBU makes estimates, assumptions, and judgments that affect the amounts of assets and liabilities reported in the consolidated financial statements. Estimates and judgments are continually revised and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant estimates and judgments include:

Financial assets at amortized cost

NBU Management has reviewed the financial assets carried at amortized cost and confirmed that:

Assets are held within a business model that is aimed at holding assets in order to collect contractual cash flows;

Contractual terms and conditions of the financial assets stipulate for the receipt of cash flows on specific dates that are intended only to repay a principal and interest for the outstanding principal amount.

3 Critical accounting estimates and judgments in applying accounting policies (continued)

Impairment of securities carried at amortized cost

The NBU regularly reviews its portfolio of securities carried at amortized cost to assess for impairment. In determining whether an impairment loss should be recognized in respect of the portfolio, the NBU's management makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows of the portfolio of securities. This evidence may include observable data indicating that there has been an adverse change in the solvency of issuers.

The NBU's management believes that, as at 31 December 2017 and 2016, there was no evidence for impairment of the securities carried at amortized cost.

Estimation of the fair value of domestic securities obtained through the exchange of domestic securities held by the National Bank of Ukraine to new domestic securities into the ownership of the NBU

The National Bank applied judgments for assessing the fair value of domestic securities (hereinafter – "DGLBs") obtained through the exchange of DGLBs held by the National Bank of Ukraine to new DGLBs into the ownership of the NBU (Note 8).

In particular, for the purpose of determining the fair value at the date of initial recognition of long-term inflationary government bonds, forecasts were made on the expected cash flows of the instrument, which were calculated based on the consumer price index for the period of 1-5 years and on the target values of the consumer price index for the period 6- 30 years (Note 34).

The NBU's management believes that, the assessment methods and assumptions used are reasonable and complete to best reflect the fair value at the date of initial recognition. Had the management used other assumptions about the projected interest rates, a larger or smaller change in the valuation of long-term inflationary government bonds in the absence of market quotes had a significant effect on the Bank's income reflected in the consolidated financial statements.

Impairment of loans to banks and other borrowers

The NBU regularly reviews its loan portfolio to assess the impairment.

Most of the NBU's loans to banks and other borrowers are assessed on an individual basis. The NBU's management makes judgments to assess future cash flows of each specific loan. Provisions for individually significant loans are calculated by discounting future cash flows of those loans, with reference to repayment of the loan and sale of collateral under the respective loan. In measuring future impairment of the loans to banks that are in the process of liquidation, considered to be insolvent, or experiencing significant financial difficulties, management makes judgments and estimates future cash flows of the collateral sold.

The NBU determines the value of properties obtained as collateral under lending transactions at fair value. Provision for loan impairment may be affected by the assessed property value which requires professional judgment. Accounting estimates related to the property appraisals in the absence of active market-based prices are considered to be a key source of uncertainty due to the fact that: (i) they are highly susceptible to change from period to period, and (ii) a potential impact from recognition of such estimates may be material.

In determining whether an impairment loss should be recognized in respect of the loans granted under credit lines to support small and medium enterprises at the cost of the funds obtained from the European Bank for Reconstruction and Development, the NBU's management makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the solvency of borrowers in a group, or national or local economic conditions that correlate with defaults on the loans granted by the NBU. The NBU uses estimates based on historical loss experience for assets with similar credit risk characteristics when forecasting its future cash flows.

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

3 Critical accounting estimates and judgments in applying accounting policies (continued)

A 10% decrease or increase in the estimated future discounted cash flows from individually impaired loans, which could arise from differences in amounts and timing of the cash flows, would result in the increase of loan impairment provisions in the amount of UAH 1 989 million or their decrease in the amount of UAH 974 million, respectively, as at 31 December 2017 (31 December 2016: would result in the increase of loan impairment provisions in the amount of UAH 2 320 million or their decrease in the amount of UAH 2 222 million, respectively).

Impairment of property and equipment and intangible assets

At the end of each reporting period, the NBU's management reviews the carrying amounts of property and equipment and intangible assets to assess for their potential impairment if certain events or changes in circumstances indicate possible impairment of their carrying amounts (Note 11). The impairment of property and equipment and intangible assets is measured by estimating the recoverable values of assets.

Provision for potential litigation costs incurred under claims against the NBU

The NBU's management analyzes legal claims under which it acts as a defendant in order to identify whether potential losses are highly probable that may cause the NBU make payments in favor of another party – a claimant. The NBU estimates the potential losses as highly probable, in the event the court of the first instance passes a ruling not in favor of the NBU.

Related party transactions

In the normal course of business, the NBU enters into transactions with its related parties, being mainly the government and state-controlled banks and entities. IFRS 9 requires that the initial recognition of financial instruments be based on their fair values. Judgment is applied in determining whether transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

The terms and conditions of related party transactions are disclosed in Note 36.

Change in presentation

In preparing the consolidated financial statements for the year ended 31 December 2017, the NBU changed its approach to presenting Liabilities to the IMF of the consolidated statement of financial position, in particular presented it by two lines, and also presentation of information on the specified lines in the disclosure of interest rate risk and liquidity risk in order to accurately present the balance of operations with the IMF.

Changes in the consolidated statement of financial position were as follows:

	Previously presented for the year ended 31 December 2016	**Change in presentation**	**Changed presentation for the year ended 31 December 2016** *in UAH millions*
Liabilities to the IMF	243 295		
Liabilities to the IMF except for quota contributions		169 757	169 757
Liabilities to the IMF in respect to quota contributions		73 538	73 538

3 Critical accounting estimates and judgments in applying accounting policies (continued)

Changes in Note 31 "Interest rate risk":

Previously presented for the year ended 31 December 2016

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest-bearing	Total
							in UAH millions
Liabilities to the IMF	169 134	623	–	–	–	73 538	**243 295**

Changed presentation for the year ended 31 December 2016

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest-bearing	Total
							in UAH millions
Liabilities to the IMF except for quota contributions	169 134	–	–	–	–	623	**169 757**
Liabilities to the IMF in respect to quota contributions	–	–	–	–	–	73 538	**73 538**

Changes in Note 32 "Liquidity risk":

Previously presented for the year ended 31 December 2016

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
							in UAH millions
IMF quota contributions	–	–	–	–	–	73 538	**73 538**
Liabilities to the IMF	3 161	623	8 198	72 866	85 093	73 354	**243 295**

Changed presentation for the year ended 31 December 2016

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
							in UAH millions
IMF quota contributions	73 538	–	–	–	–	–	**73 538**
Liabilities to the IMF except for quota contributions	–	623	8 198	72 866	85 093	2 977	**169 757**
Liabilities to the IMF in respect to quota contributions	73 538	–	–	–	–	–	**73 538**

3 Critical accounting estimates and judgments in applying accounting policies (continued)

Changes in Note 32 "Liquidity risk" under contractual undiscounted cash flows:

Previously presented for the year ended 31 December 2016

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
							in UAH millions
Liabilities to the IMF	3 161	953	11 126	82 699	87 828	73 354	**259 121**

Changed presentation for the year ended 31 December 2016

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
							in UAH millions
Liabilities to the IMF except for quota contributions	–	953	11 126	82 699	87 828	2 977	**185 583**
Liabilities to the IMF in respect to quota contributions	73 538	–	–	–	–	–	**73 538**

4 Impact of economic environment on the financial position and performance of the National Bank of Ukraine

During 2017, the economy of the Ukraine was in the process of recovery, real GDP grew by the year-end by 2.5% (in 2016, real GDP grew by 2.4%) (http://ukrstat.gov.ua).

In 2017 the dominant role belonged to consumption due to keeping the growth rates of nominal salary during the whole 2017 and increase of pensions in Q4 2017 within the framework of the Pension Reform. The strong impulse to increase of salaries was given in the beginning of 2017 due to double increase of minimum salary. Also, increase of investments with high intense were observed on the ground of improvement of financial performance of enterprises, improvement of business expectations and increase of capital expenditures of the budget.

4 Impact of economic environment on the financial position and performance of the National Bank of Ukraine (continued)

A favorable situation in global commodity and financial markets, as well as accelerated economic growth in the countries that are major trading partners allowed compensating consequences of stopped trade with non-controlled territories on the balance of payments. This, alongside with the next tranche of the IMF received within the EFF program in Quarter II of 2017, allowed increasing the volume of international reserves from USD 15.5 billion at the beginning of the year to USD 18.8 billion, as at the end of 2017.

Consumer demand, as well as the effect of factors on which tools of monetary policies have a restricted impact caused the increase in the consumer inflation rate based on the results of 2017 up to 13.7% (in 2016, the consumer inflation significantly slowed down to 12.4%) (http://ukrstat.gov.ua). Also, the inflation expectations deteriorated somewhat. Correspondingly, the fundamental inflation pressure increased, which found a reflection in the basic inflation indicator which, based on the results of 2017, accelerated up to 9.5% (compared to 5.8% in 2016) (http://ukrstat.gov.ua).

The increased pressure on inflation was also caused by a significant relief applied in fiscal policies at the end of 2017. Besides, the shift to financing the state budget expenditures at the year-end was even more significant than in the previous years – during the whole year, the state budget surplus was maintained, whereas, December fixed a record deficit as a result of sharp increase in expenditures by almost all directions. Another additional factor for the inflation growth at the year-end was the increased devaluation pressure on UAH. During 2017, the NBU performed currency interventions in order to smooth down the excessive UAH exchange rate fluctuations, not interfering into dominating trends. As a result, during 2017, the official exchange rate of UAH against USD weakened by 3.2% (from UAH 27.191 per USD 1 as at 31 December 2016 to UAH 28.067 per USD 1 as at 31 December 2017). However, due to weakening of USD against the basket of currencies and strengthening of certain currencies of the countries that are major trading partners of Ukraine, the nominal exchange rate of UAH devalued more significantly, especially at the year-end.

Due to the increased risks of accelerated inflation rates and to prevent the deteriorated inflation expectations, the NBU refrained from applying reliefs in monetary policies from the middle of 2017 and, in Quarter IV of 2017 moved to applying stricter monetary policies by increasing the discount rate to 14.5% p.a. at the year-end. Applying stricter monetary policy is aimed at bringing the inflation rates to target indicators within the projected horizon.

During 2017, the banking system maintained a significant liquidity surplus, which gradually decreased starting from the middle of the year. The volume of deposit certificates decreased by UAH 1 billion and amounted to UAH 67 billion at the end of 2017, funds on correspondent accounts of banks decreased by UAH 3 billion and amounted to UAH 37.5 billion at the end of 2017. In addition, uneven liquidity allocation among banks caused the increased demand to liquidity on behalf of certain banks, which made them turn on a periodical basis to the NBU for refinancing loans.

The key channels for withdrawing liquidity in 2017 were growth in volumes of cash and the Government's transactions. The key channels for satisfying the banking system with liquidity were the NBU's transactions on the purchase of currency to replenish international reserves in the periods of excess of the foreign currency supply over its demand. Balance of the NBU's interventions on currency sales and purchases during the year was positive.

In October 2017, the Ministry of Finance of Ukraine and the National bank of Ukraine concluded a transaction with the state debt through the exchange of DGLBs held by the National Bank of Ukraine to new DGLBs into the ownership of the NBU issued in accordance with the terms and conditions of issue and placement of DGLBs of Ukraine in 2017. A portion of new long-term UAH-denominated bonds were represented by DGLBs linked to the yield at the level of inflation rate.

4 Impact of economic environment on the financial position and performance of the National Bank of Ukraine (continued)

As at 31 December 2017, Ukraine's sovereign rating was "Caa2" according to Moody's, "B-" according to Standard & Poor's, and "B-" according to Fitch (31 December 2016: Ukraine's sovereign rating was "Caa3" according to Moody's, "B-/B" according to Standard & Poor's, and "B-" according to Fitch).

Changes in operating and political environment in Ukraine in 2017

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2017, an armed conflict continued in certain parts of Luhansk and Donetsk oblasts. In January 2016, the agreement on the free trade area between Ukraine and the EU came into force. At the same time, the Russian Federation introduced restrictions on the transit of Ukrainian exports through the Russian territory.

As at 31 December 2017, allowance for losses of the NBU's assets located in or otherwise associated with Autonomous Republic of Crimea (including loans to borrowers) and those incurred due to the loss by the Ukrainian authorities of control over certain areas in Donetsk and Luhansk oblasts amounted to UAH 1 022 million, which was equal to 0.1% of the NBU's consolidated assets (31 December 2016: UAH 1 022 million, which was equal to 0.11% of the NBU's consolidated assets).

The NBU's management has been monitoring these developments and taking actions where appropriate. Further adverse developments may negatively affect the NBU's consolidated performance and financial position in a manner and to the extent not currently determinable.

The stability of Ukraine's economy is largely dependent on the Government's policies and actions. The Ukrainian economy is largely dependent on fluctuations in global markets and the growth rate of the global economy. As a result, Ukraine is exposed to risks that do not exist in more developed economies.

5 Funds and deposits in foreign currency and investment metals

	2017	2016
		(in UAH millions)
Financial assets		
Foreign currency cash	**1 941**	1 861
Demand deposits	**11 642**	15 867
Term deposits in foreign currency	**10 217**	31 975
Total financial assets	**23 800**	49 703
Non-financial assets		
Term and demand deposits:		
in gold	**1 368**	1 255
Total non-financial assets	**1 368**	1 255
Total funds and deposits in foreign currency and investment metals	**25 168**	50 958

5 Funds and deposits in foreign currency and investment metals (continued)

Included in demand deposits as at 31 December 2017 were balances on special purpose accounts totaling to UAH 59 million (31 December 2016: UAH 353 million) maintained by the NBU under credit lines received from international financial institutions and which are restricted for use, and UAH 6 million (2016: UAH 3 million) of margin reserve for settlements under futures operations within the framework of the agreements on investment management and advisory services between the International Bank for Reconstruction and Development and the NBU (Note 33).

As at 31 December 2017 and 2016, term deposits in gold earned interest paid in USD.

As at 31 December 2017 and 2016, all funds and deposits in foreign currency were neither past due nor impaired and were not collateralized.

All foreign currency funds and deposits could be recovered within 12 months (31 December 2016: all foreign currency funds and deposits were expected to be recovered within 12 months).

A geographical concentration risk analysis of funds and deposits in foreign currency is disclosed in Note 28, credit risk analysis is disclosed in Note 29, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

6 Foreign securities

As at 31 December 2017, foreign securities comprised the following:

	Government bonds	**Securities of international agencies, banks, and other issuers**	**Total**
			(in UAH millions)
Foreign securities at fair value:			
Debt securities by issuers:			
Securities issued by US issuers:			
denominated in USD	162 830	12 834	175 664
Securities issued by EU states issuers:			
denominated in USD	20 229	76 921	97 150
denominated in EUR	704	13 363	14 067
denominated in GBP	4 789	3 232	8 021
denominated in CNY	–	2 142	2 142
Securities of other issuers:			
denominated in USD	2 912	58 667	61 579
denominated in EUR	–	27 083	27 083
denominated in AUD	657	332	989
denominated in GBP	–	2 778	2 778
denominated in CNY	–	12 957	12 957
denominated in JPY	–	11 904	11 904
Total debt securities	**192 121**	**222 213**	**414 334**
Equity instruments:			
Shares of the Black Sea Trade and Development Bank	–	120	120
Investment in the Inter-State Bank	–	1	1
Total equity instruments	**–**	**121**	**121**
Total foreign securities at fair value	**192 121**	**222 334**	**414 455**

6 Foreign securities (continued)

As at 31 December 2017 and 2016, all foreign debt securities were neither past due nor impaired.

In 2017, interest income earned on foreign debt securities and included in results on operations with debt securities at fair value in the consolidated statement of comprehensive income amounted to UAH 3 318 million (2016: UAH 2 575 million).

All foreign securities are expected to be recovered within 12 months, except for equity instruments totaling UAH 121 million (31 December 2016: UAH 121 million).

Securities of international agencies, banks, and other issuers include debt securities issued by foreign central and investment banks, international agencies, and other issuers.

A geographical concentration risk analysis of foreign securities is disclosed in Note 28, a credit risk analysis for debt securities is disclosed in Note 29, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

As at 31 December 2016, foreign securities comprised the following:

	Government bonds	**Securities of international agencies, banks, and other issuers**	**Total**
			(in UAH millions)
Foreign securities at fair value:			
Debt securities by issuers:			
Securities issued by US issuers:			
denominated in USD	143 769	12 177	155 946
denominated in EUR	–	1 963	1 963
Securities issued by EU states issuers:			
denominated in USD	13 441	48 147	61 588
denominated in EUR	8 511	10 300	18 811
denominated in GBP	4 612	3 043	7 655
Securities of other issuers:			
denominated in USD	1 343	17 877	19 220
denominated in EUR	–	9 151	9 151
denominated in AUD	580	294	874
Total debt securities	**172 256**	**102 952**	**275 208**
Equity instruments:			
Shares of the Black Sea Trade and Development Bank	–	120	120
Investment in the Inter-State Bank	–	1	1
Total equity instruments	**–**	**121**	**121**
Total foreign securities at fair value	**172 256**	**103 073**	**275 329**

6 Foreign securities (continued)

Information on nominal value, yield to maturity, coupon income, and maturities of foreign debt securities held by the NBU as at 31 December 2017 is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in UAH equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value by issuers:						
Government bonds:						
Securities issued by US issuers:						
denominated in USD	5 834	163 750	1,3-2	0,625-2,375	Every 6 months	From 2.5 month to 2.9 years
Securities issued by EU states issuers:						
denominated in USD	724	20 312	1,7-2,3	1-1,875	Quarterly, every 6 months, or annually	From 1.7 months to 2.8 years
denominated in EUR	20	653	0,1-0,2	0,375-1,65	Annually	From 5.1 years to 6.8 years
denominated in GBP	123	4 653	0,4-0,5	1,25-2	Every 6 months	From 6.8 months to 2.6 years
Securities of other issuers:						
denominated in USD	105	2 941	1,9-2,4	1,25-2,125	Quarterly, every 6 months	From 1.5 years to 4.8 years
denominated in AUD	29	640	2-2,1	1,75-4,5	Every 6 months	From 2.3 years to 2.9 years
Bonds of international agencies, banks, and other issuers:						
Securities issued by US issuers:						
denominated in USD	459	12 883	1,7-2,4	0,875-2,45	Quarterly, every 6 months	From 5.5 months to 4 years
Securities issued by EU states issuers:						
denominated in USD	2 748	77 134	1,6-2,6	0-2,44352	Quarterly, every 6 months, annually, without coupon repayment	From 12 days to 5 years
denominated in EUR	397	13 298	0-0,2	0-1,5	Quarterly, annually, without coupon repayment	From 2.7 month to 6.4 years
denominated in GBP	85	3 207	0,6-0,7	0-1,125	Annually, without coupon repayment	From 2.5 months to 2 years
denominated in CNY	500	2 147	3,9-4,4	0-4,5	Every 6 months, without coupon repayment	From 1.4 months to 2.9 years
Securities of other issuers:						
denominated in USD	2 093	58 750	1,7-3,5	0-2,75	Quarterly, every 6 months, without coupon repayment	From 8 days to 4.7 years
denominated in EUR	809	27 098	0-1	0-0,875	Annually, without coupon repayment	From 2.7 months to 5.4 years
denominated in AUD	15	328	2,9	2,57	Quarterly	3.9 years
denominated in GBP	74	2785	0,7-1,1	0-0,875	Annually, without coupon repayment	From 1.7 months to 2.5 years
denominated in CNY	3 036	13 037	0,4-4,9	0	Without coupon repayment	From 19 days to 11.6 months
denominated in JPY	47 900	11 908	0-0,1	0	Without coupon repayment	From 2.9 to 9.7 months

6 Foreign securities (continued)

Information on nominal value, yield to maturity, coupon income, and maturities of foreign debt securities held by the NBU as at 31 December 2016 is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in UAH equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value by issuers:						
Government bonds:						
Securities issued by US issuers:						
denominated in USD	5 275	143 444	0,4-1,5	0,0-4,5	Every 6 months, without coupon repayment	From 1 month to 3 years
Securities issued by EU states issuers:						
denominated in USD	496	13 487	1,0-1,8	0,875-1,75	Quarterly, every 6 months or annually	From 2 months to 3.2 years
denominated in EUR	292	8 299	(0,8)-(0,1)	0,05-1,65	Annually	From 1.1 years to 7.8 years
denominated in GBP	136	4 515	0,1-1,0	1,0-2,0	Every 6 months	From 22 days to 3.6 years
Securities of other issuers:						
denominated in USD	50	1 360	1,8	1,25	Every 6 months	2.5 years
denominated in AUD	29	562	1,8-2,0	2,75-5,50	Every 6 months	From 1.1 years to 2.8 years
Bonds of international agencies, banks, and other issuers:						
Securities issued by US issuers:						
denominated in EUR	69	1 961	(0,2)-0,0	0,064-0,088	Quarterly	From 2 months to 2.2 years
denominated in USD	449	12 209	1,2-2,4	0,875-2,45	Every 6 months	From 8 months to 3.7 years
Securities issued by EU states issuers:						
denominated in USD	1 775	48 261	0,9-2,3	0,625-1,875	Quarterly, every 6 months, or annually	From 23 days to 4.1 years
denominated in EUR	355	10 079	(0,4)-1,6	0,0-4,25	Quarterly or annually	From 16 days to 7.4 years
denominated in GBP	90	2 999	0,3-0,5	1,0-1,125	Annually	From 11 months to 3 years
Securities of other issuers:						
denominated in USD	659	17 915	1,0-2,5	0,875-2,25	Quarterly, every 6 months	From 3 months to 4.5 years
denominated in EUR	320	9 095	(0,2)-0,6	0,1-0,625	Annually	From 2 years to 4.9 years
denominated in AUD	15	294	3,4	2,61	Quarterly	4.9 years

7 SDR holdings

SDR holdings are demand funds denominated in SDR on the account opened with the IMF for Ukraine.

Movements in SDR holding account during the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
		(in UAH millions)
Balance of SDR holdings as at 1 January	**73 546**	212
Proceeds from the IMF:		
in favor of the NBU (Note 17)	**27 062**	25 965
in favor of the Government	–	–
Purchase of SDRs	–	63 384
Other proceeds and payments	**137**	126
Repayment of loans:		
on behalf of the NBU (Note 17)	**(8 412)**	–
on behalf of the Government	**(15 117)**	–
Payment of loan related fees and commissions	**(564)**	(422)
Translation of SDRs to other foreign currencies		
in favor of the NBU	**(13 532)**	(12 980)
in favor of the Government	–	–
Payment of interest for the use of the IMF loans:		
on behalf of the NBU	**(4 609)**	(2 779)
on behalf of the Government	**(3 524)**	(2 722)
Payment of interest for the use of funds received under SDR allocation:		
on behalf of the NBU	**(13)**	(2)
on behalf of the Government	**(200)**	(25)
Other payments	**(1)**	(2)
Income on SDR holdings	**387**	41
Translation differences	**5 700**	2 750
Balance of SDR holdings as at 31 December	**60 860**	73 546

In 2017, the account of SDR holdings received funds in the amount of SDR 734 million (UAH 27 062 million at the official exchange rate at the date of payment) under the Extended Funding Facility (hereinafter, “the EFF”) program, of which SDR 367 million (UAH 13 532 million at the official exchange rate at the date of payment) were translated to other foreign currencies.

In 2016, the account of SDR holdings received funds in the amount of SDR 716 million (UAH 25 965 million at the official exchange rate at the date of payment) under the EFF program of which SDR 358 million (UAH 12 980 million at the official exchange rate at the date of receipt) were translated to other foreign currencies.

A geographical concentration risk analysis of SDR holdings is disclosed in Note 28, a credit risk analysis for debt securities is disclosed in Note 29, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

8 Domestic securities

As at 31 December 2017, domestic securities comprised the following:

	Government securities	Corporate securities	Total
			(in UAH millions)
Domestic debt securities at fair value*:*			
Denominated in the national currency:			
Domestic government loan bonds	101	–	**101**
Total debt securities at fair value	**101**	**–**	**101**
Derivative securities at fair value*:*			
Denominated in foreign currencies:			
Government derivatives denominated in USD	675	–	**675**
Total derivative securities at fair value	**675**	–	**675**
Debt securities at amortized cost:			
Denominated in the national currency:			
Domestic government loan bonds	370 967	–	**370 967**
Bonds of other government institutions	–	954	**954**
Total debt securities at amortized cost	**370 967**	**954**	**371 921**
Total domestic securities	**371 743**	**954**	**372 697**

In accordance with the Law of Ukraine *On the National Bank of Ukraine*, the NBU performs operations with domestic securities (hereinafter "DGLBs") only in the secondary market.

DGLBs are issued by the Ministry of Finance of Ukraine. The nominal value of DGLBs is UAH 1 000 each.

In 2017, the NBU purchased UAH-denominated DGLBs for the total nominal value of UAH 1 406 million in order to support the liquidity of Privatbank PJSC upon its transfer to public ownership in December 2016 and for the total nominal value of UAH 2 543 million in order to support the liquidity of Household Deposit Guarantee Fund (2016: for the total nominal value of UAH 25 800 million in order to support the liquidity of Privatbank PJSC upon its transfer to public ownership in December 2016; and UAH 2 086 million as a result of satisfaction of the NBU's claims under refinancing loans).

As at 31 December 2017 bonds of other government institutions include the bonds issued by the National Agency of Roads of Ukraine, with the additional collateral in the form of the government guarantee of the issuer's liabilities issued by the Cabinet of Ministers of Ukraine (hereinafter, the "Ukravtodor bonds") (as at 31 December 2016 bonds of other government institutions include the bonds issued by the the State Mortgage Institution, with the additional collateral in the form of the government guarantee of the issuer's liabilities issued by the Cabinet of Ministers of Ukraine (hereinafter, the "SMI bonds"), and "Ukravtodor bonds"). The SMI bonds had nominal value of UAH 100 000 each. The Ukravtodor bonds have nominal value of UAH 1 000 each.

In October 2017, the Ministry of Finance of Ukraine and the National Bank of Ukraine concluded a transaction with the state debt through the exchange of DGLBs held by the National Bank of Ukraine to new DGLBs into the ownership of the NBU for the total nominal value UAH 219 564 million issued in accordance with the terms and conditions of issue and placement of DGLBs of Ukraine in 2017 (hereinafter, the "Issue Terms and Conditions"). The portfolio of securities at amortized cost was decreased by DGLBs with the total book value of UAH 218 880 million maturing in the period from 11 October 2017 to 27 November 2030 and fixed rates of interest income ranging from 9.50% to 15.50% p.a. At the same time, the exchange resulted in acquisition of DGLBs with the total amount of UAH 220 610 million maturing in the period from 10 May 2025 to 10 November 2047. Interest income rates under the bonds repayable in the period from 2025 to 2035 are fixed and range from 8.12% to 11.30% p.a. Interest income rates under the bonds repayable in the period from 2036 to 2047 are variable and depend on the actual inflation rate increased by 2.2 percentage points. Accrued and unpaid coupon revenue under the DGLBs subject to exchange, as at the transaction date, in the amount of UAH 7 966 million was repaid in cash to the National Bank of Ukraine.

8 Domestic securities (continued)

A positive result (gain) from this transaction amounting to UAH 1 730 million is included in "Result of Operations with Financial Instruments, Other Than Debt Securities at Fair Value" in the consolidated statement of comprehensive income.

All domestic securities were neither past due nor impaired as at 31 December 2017 and 2016.

All domestic securities are expected to be recovered later than within 12 months from the reporting date, except for the nominal amount of DGLBs and bonds of other government institutions and accrued interest on debt securities totaling to UAH 23 783 million payable during 2018 (31 December 2016: all domestic securities are expected to be recovered later than within 12 months from the reporting date, except for the nominal amount of DGLBs and bonds of other government institutions and accrued interest on debt securities totaling to UAH 48 887 million payable within 2017).

Credit risk analysis is disclosed in Note 29, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32. Fair value of domestic securities is disclosed in Note 34.

As at 31 December 2016, domestic securities comprised the following:

	Government securities	Corporate securities	Total
		(in UAH millions)	
Domestic debt securities at fair value:			
Denominated in the national currency:			
Domestic government loan bonds ("DGLBs")	148	–	**148**
Total debt securities at fair value	**148**	**–**	**148**
Derivative securities at fair value:			
Denominated in foreign currencies:			
Government derivatives denominated in USD	357	–	**357**
Total derivative securities at fair value	**357**	–	**357**
Debt securities at amortized cost:			
Denominated in the national currency:			
Domestic government loan bonds	391 936	–	**391 936**
Bonds of other government institutions	–	2 013	**2 013**
Total debt securities at amortized cost	**391 936**	**2 013**	**393 949**
Total domestic securities	**392 441**	**2 013**	**394 454**

Information on the nominal value, yield to maturity, coupon income, and maturities of domestic securities as at 31 December 2017 is presented in the table below:

	Total nominal value in UAH, in UAH millions	Total nominal value in foreign currency, in millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Domestic debt securities at fair value:						
Denominated in the national currency:						
Domestic government loan bonds	103	–	16,19	9,50	Every 6 months	From 1.6 years to 1.7 years
Derivative securities at fair value:						
Denominated in foreign currencies:						
Government derivatives	1 230	44				Up to 22.4 years
Debt securities at amortized cost:						
Denominated in the national currency:						
Domestic government loan bonds	360 470	–	7,21-16,21	8,12-14,50	Annually, Every 6 months	From 16 days to 29.9 years
Bonds of other government institutions	950	–	17,14	14,25	Quarterly	8.7 months

8 Domestic securities (continued)

Information on the nominal value, yield to maturity, coupon income, and maturities of domestic securities as at 31 December 2016 is presented in the table below:

	Total nominal value in UAH, in UAH millions	Total nominal value in foreign currency, in millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Domestic debt securities at fair value:						
Denominated in the national currency:						
Domestic government loan bonds	154	–	16,53	9,50	Every 6 months	From 2.7 years to 2.8 years
Derivative securities at fair value:						
Denominated in foreign currencies:						
Government derivatives	1 192	44				Up to 23.4 years
Debt securities at amortized cost:						
Denominated in the national currency:						
Domestic government loan bonds	381 817	–	9,96-17,16	9,50-16,50	Every 6 months	From 2 months to 14.3 years
Bonds of other government institutions	2 000	–	18,00-18,29	12,10-16,30	Quarterly	From 1 year to 1.7 years

9 Loans to banks and other borrowers

Loans to banks and other borrowers by the purpose of their issue are classified as follows:

	2017	2016
	(in UAH millions)	
Loans granted to banks to support their liquidity:		
for stabilizing banking activities	**60 883**	72 912
loans provided through tenders conducted by the NBU	**7 675**	1 855
other	**10**	10
Loans granted to Household Deposit Guarantee Fund	**6 479**	9 062
Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development (the “EBRD”)	**36**	36
Other	**2**	2
Provision for impairment of loans to banks and other borrowers	**(42 668)**	(48 421)
Total loans to banks and other borrowers	**32 417**	35 456

Loans granted for stabilizing banking activities, which are expected to be recovered later than within 12 months from the reporting date, amounted to UAH 10 793 million at the nominal value (31 December 2016: UAH 16 726 million).

9 Loans to banks and other borrowers (continued)

During 2017, the NBU supported the liquidity of banks through establishing a standing refinancing line (overnight loans), refinancing banks for the period up to 14 days and up to 90 days by holding tenders (during 2016, the NBU supported the liquidity of banks through establishing a standing refinancing line (overnight loans), refinancing banks for the period up to 14 days and up to 90 days by holding tenders and granting stabilizing loans).

In 2017, movements in provisions for loans to banks and other borrowers were as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development	Other	Total
				(in UAH millions)
Provision for loans to banks and other borrowers at the beginning of the year	**48 383**	**36**	**2**	**48 421**
Decrease in provision (Note 26)	(3 151)	–	–	**(3 151)**
Write off of loans at the cost of provisions	(26)	–	–	**(26)**
Adjustment of interest income on impaired loans to banks (Note 22)	(2 576)	–	–	**(2 576)**
Provision for loans to banks and other borrowers at the end of the year	**42 630**	**36**	**2**	**42 668**

In 2016, movements in provisions for loans to banks and other borrowers were as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development	Other	Total
				(in UAH millions)
Provision for loans to banks and other borrowers at the beginning of the year	**50 312**	**36**	**2**	**50 350**
Decrease in provision (Note 26)	(875)	–	–	**(875)**
Write off of loans at the cost of provisions	(187)	–	–	(187)
Adjustment of interest income on impaired loans to banks (Note 22)	(867)	–	–	**(867)**
Provision for loans to banks and other borrowers at the end of the year	**48 383**	**36**	**2**	**48 421**

9 Loans to banks and other borrowers (continued)

Analysis of loans to banks and other borrowers outstanding as at 31 December 2017 by credit quality was as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development	Loans granted to Household Deposit Guarantee Fund and other	Total
				(in UAH millions)
Neither past due nor impaired, by credit rating:				
CCC	4 995	–	–	**4 995**
B-	624	–	–	**624**
Unrated	430	–	6 479	**6 909**
Total neither past due nor impaired	**6 049**	–	**6 479**	**12 528**
Individually impaired:				
not past due	1 506	–	–	**1 506**
overdue from 181 to 360 days	250	–	–	**250**
overdue over 360 days	60 763	36	2	**60 801**
Total individually impaired	**62 519**	**36**	**2**	**62 557**
Provision for loans to banks and other borrowers	(42 630)	(36)	(2)	**(42 668)**
Total loans to banks and other borrowers	**25 938**	**–**	**6 479**	**32 417**

Analysis of loans to banks and other borrowers outstanding as at 31 December 2016 by credit quality was as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development	Loans granted to Household Deposit Guarantee Fund and other	Total
				(in UAH millions)
Neither past due nor impaired, by credit rating:				
CC	2 559	–	–	**2 559**
Unrated	630	–	9 062	**9 692**
Total neither past due nor impaired	**3,189**	–	**9 062**	**12 251**
Individually impaired:				
not past due	6 049	–	–	**6 049**
overdue from 31 to 90 days	34	–	–	**34**
overdue from 181 to 360 days	4 396	–	–	**4 396**
overdue over 360 days	61 109	36	2	**61 147**
Total individually impaired	**71 588**	**36**	**2**	**71 626**
Provision for loans to banks and other borrowers	(48 383)	(36)	(2)	**(48 421)**
Total loans to banks and other borrowers	**26 394**	**–**	**9 062**	**35 456**

Loans granted to support liquidity of the banks that have no international ratings assigned include the loans to domestic banks to support their liquidity, with their ratings determined with the help of the NBU's internal methodology.

As at 31 December 2017, due from banks amounting to UAH 430 million includes the amounts due from the banks with the internal ratings of "BBB". As at 31 December 2016, due from banks amounting to UAH 630 million includes the amounts due from the banks with the internal ratings of "AAA" and "B" in the amount of UAH 13 million and UAH 617 million, respectively.

9 Loans to banks and other borrowers (continued)

Rating "AAA" is the highest level of a counterparty's credit ability. The counterparty's financial position is assessed as being solid and stable in the long-term perspective, its ability to repay on a timely basis and in full the interest and principal under debt liabilities is very high.

Rating "BBB" is the medium level of a counterparty's credit ability. The counterparty's financial position is assessed as being satisfactory and stable in the mid-term perspective; the counterparty's debt obligations are more exposed to a risk of default than those of the counterparty with higher ratings. However, difficulties may arise in repaying interest and principal under debt obligations in the event of unfavorable movements in commercial, financial, and economic conditions, although, in the nearest future, a probability of default under the counterparty's debt obligation is remote.

Rating "BB" is the medium level of credit ability. The counterparty's financial position is assessed as being satisfactory and stable in the short-term perspective; at the analysis date, the counterparty is able to repay interest and principal under debt obligations, but has a higher probability of default under its liabilities than the counterparty with the rating "BBB".

Rating "B" is the level of a counterparty's credit ability that is slightly lower than medium. Key indicators of the counterparty's financial position are assessed as being satisfactory and stable in the short-term perspective and possessing the sufficient level of financial solvency. Timely and complete repayments under debt obligations depend largely on commercial, financial, and economic conditions.

Rating "CC" is the low level of a counterparty's credit ability. Key indicators of the counterparty's financial position are assessed as being satisfactory, but the probability of their deterioration in the short-term perspective is rather high, and the level of financial solvency is very low. Solvency of the counterpartying bank depends fully on internal economic developments.

Rating "C" is the low level of a counterparty's credit ability which is treated as pre-default. The counterparty's financial position is unstable and assessed as being unsatisfactory. The counterparty may stop repaying interest and principal under debt obligations without obtaining the lenders' consent on restructuring the debt before maturity. Solvency of the counterpartying bank depends fully on internal economic developments.

Credit quality of the loans granted to Household Deposit Guarantee Fund is limited by the sovereign credit rating of Ukraine as at 31 December 2017 and 2016.

As disclosed in Note 2, the primary factors that the NBU considers in determining whether a loan is impaired are worsening of the borrower's financial position, loans overdue status, and possibilities to sell collateral, but not only information about credit rating. The NBU presents in the table above an aging analysis of the loans that are individually determined to be impaired.

The following table summarizes loan amounts, before provision, by the collateral obtained as at 31 December 2017:

	Loans granted to banks to support their liquidity	**Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development**	**Loans granted to Household Deposit Guarantee Fund and other**	**Total**
				(in UAH millions)
Loans secured by:				
Real estate	19 572	–	–	**19 572**
Securities	9 130	–	6 479	**15 609**
Proprietary rights under loan agreements	2 009	–	–	**2 009**
Other types of collateral	1 108	–	–	**1 108**
Unsecured loans	36 749	36	2	**36 787**
Total loans to banks and other borrowers	**68 568**	**36**	**6 481**	**75 085**

9 Loans to banks and other borrowers (continued)

The following table summarizes loan amounts, before provision, by the collateral obtained as at 31 December 2016:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development	Loans granted to Household Deposit Guarantee Fund and other	Total
				(in UAH millions)
Loans secured by:				
Real estate	23 637	–	–	**23 637**
Securities	5 846	–	4 904	**10 750**
Proprietary rights under loan agreements	1 882	–	–	**1 882**
Other types of collateral	2 708	–	–	**2 708**
Unsecured loans	40 704	36	4 160	**44 900**
Total loans to banks and other borrowers	**74 777**	**36**	**9 064**	**83 877**

Loans granted to banks with the purpose of supporting their liquidity were normally collateralized by securities, in particular, government bonds of Ukraine, municipal bonds, corporate bonds of enterprises, including those guaranteed by the Cabinet of Ministers of Ukraine, foreign currency, shares of significant shareholders in a bank, as well as real estate items, proprietary rights on loan agreements, and mortgages.

Unsecured loans include a part of secured loans provided by the collateral not in full and a part of secured loans the collateral under which has no effect on the estimated future cash flows in accordance with the NBU's approaches to calculating provisions intended to cover the financial risks related to impairment of financial assets.

As at 31 December 2017, the estimated difference between actual losses of the NBU from the impairment of loans and losses on the impairment of those loans that would have been incurred, had they been granted without any collateral, amounted to UAH 7 773 million (31 December 2016: UAH 14 669 million).

A geographical concentration risk analysis of loans to banks and other borrowers is disclosed in Note 28, credit risk analysis is disclosed in Note 29, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

The estimated fair value of loans to banks and other borrowers is disclosed in Note 34.

10 IMF quota contributions

The quota balance is a special type asset which represents Ukraine's subscription as a member of the IMF. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the Fund, the limits of access to financial resources of the Fund, and a participant's share in the allocation of SDRs, the Fund's unit of account. The major part of Ukraine's quota was paid in the form of non-interest-bearing promissory notes issued by the NBU in favor of the IMF, with the remainder being credited to the IMF accounts No. 1 and No. 2 (Note 17).

In February 2016, Ukraine's quota in the IMF was increased by the amount of SDR 640 million (UAH 23 184 million at the official exchange rate at the transaction date or UAH 18 938 million at the annual exchange rate of the IMF) as a result of coming into force of Amended Articles of the International Monetary Fund Agreement regarding the revised quotas of member countries and the reform of the Board of Governors of the IMF No. 66-2 dated 15 December 2010 (Note 17).

As at 31 December 2017, Ukraine's total quota in the IMF amounted to SDR 2 012 million (UAH 80 415 million at the year-end official UAH/SDR exchange rate) (31 December 2016: SDR 2 012 million, or UAH 73 538 million at the year-end official UAH/SDR exchange rate). The quota does not earn interest and is a non-current asset.

The reserve position in the IMF is a specific type of assets that is created as a result of conversion of a part of contributions under the quota to liquid claims of a member country to the IMF. The reserve position is a part of currency reserves of the country.

As at 31 December 2017, the reserve position of Ukraine in the IMF amounted to SDR 103 678, or UAH 4 million at the official exchange rate of UAH against SDR at the year-end (as at 31 December 2016 – SDR 21 266, or UAH 1 million at the official exchange rate of UAH against SDR at the year-end).

A geographical concentration risk analysis of IMF quota contributions is disclosed in Note 28, a foreign currency risk analysis is presented in Note 30, a liquidity risk analysis is presented in Note 32.

11 Property and equipment and intangible assets

	Buildings and structures	Vehicles	Machinery and equipment	Tools, fixtures, and fittings	Other fixed assets	Construction in progress	Intangible assets	Total
								(in UAH millions)
Cost as at 1 January 2016	5 441	184	4 406	113	243	175	475	**11 037**
Depreciation as at 1 January 2016	(2 075)	(128)	(1 944)	(100)	(195)	(9)	(317)	**(4 768)**
Net book value as at 1 January 2016	**3 366**	**56**	**2 462**	**13**	**48**	**166**	**158**	**6 269**
Additions	–	1	114	1	26	10	98	250
Transfers to other categories, including:	–	–	28	–	(16)	(12)	–	–
Cost	–	–	28	–	(16)	(12)	–	–
Disposals, including:	–	–	(1)	–	–	(5)	–	(6)
Cost	–	(19)	(41)	(2)	(4)	(5)	(41)	(112)
Depreciation and amortization	–	19	40	2	4	–	41	106
Transfers to investment property	(8)	–	–	–	–	–	–	(8)
Cost	(11)	–	–	–	–	–	–	(11)
Depreciation and amortization	3	–	–	–	–	–	–	3
Depreciation and amortization charges	(120)	(14)	(320)	(3)	(8)	–	(94)	(559)
Cost as at 31 December 2016	5 430	166	4 507	112	249	168	532	11 164
Depreciation and amortization as at 31 December 2016	(2 192)	(123)	(2 224)	(101)	(199)	(9)	(370)	(5 218)
Net book value as at 31 December 2016	**3 238**	**43**	**2 283**	**11**	**50**	**159**	**162**	**5 946**
Additions	–	–	154	2	6	15	22	199
Transfers to other categories, including:	–	–	18	–	(8)	(7)	(3)	–
Cost	–	1	17	–	(8)	(7)	(3)	–
Depreciation and amortization	–	(1)	1	–	–	–	–	–
Disposals, including:	(179)	–	(1)	–	(1)	(3)	–	(184)
Cost	(232)	(11)	(54)	(3)	(7)	(3)	(76)	(386)
Depreciation and amortization	53	11	53	3	6	–	76	202
Transfers to investment property	(50)	–	–	–	–	–	–	(50)
Cost	(55)	–	–	–	–	–	–	(55)
Depreciation and amortization	5	–	–	–	–	–	–	5
Depreciation and amortization charges in the current reporting period	(114)	(13)	(306)	(2)	(8)	–	(47)	(490)
Cost as at 31 December 2017	5 143	156	4 624	111	240	173	475	10 922
Depreciation and amortization as at 31 December 2017	(2 248)	(126)	(2 476)	(100)	(201)	(9)	(341)	(5 501)
Net book value as at 31 December 2017	**2 895**	**30**	**2 148**	**11**	**39**	**164**	**134**	**5 421**

Initial cost of fully depreciated property and equipment which are still in operation amounted to UAH 1 415 million as at 31 December 2017 (31 December 2016: UAH 1 139 million).

Property and equipment and intangible assets are non-current assets.

In 2017 and 2016, no recovery of the NBU's property and equipment utility was recognized .

Disposal of property and equipment and intangible assets of subsidiaries has been adjusted by the amount of depreciation and amortization calculated in accordance with the NBU's accounting policies.

11 Property and equipment and intangible assets (continued)

In 2017, pursuant to the regulatory acts of the Cabinet of Ministers of Ukraine, free transfer of objects of state property right from the sphere of management of the National Bank to the sphere of management of other bodies authorized to manage state property took place. The result of the transfer of these assets amounts to UAH 191 million (note 19).

12 Other assets

	2017	2016
	(in UAH millions)	
Other financial assets		
Loans to the NBU employees and other accounts receivable – neither past due nor impaired	**928**	600
Proprietary rights on loan agreements repossessed by the National Bank of Ukraine	**16**	16
Other	**13**	27
Provision for other financial assets	**(20)**	(26)
Total other financial assets	**937**	617
Other non-financial assets		
Investment metals	**2 064**	2 503
Current tangible assets	**791**	507
Commemorative and bullion coins, souvenirs and other products	**638**	699
Advance payments	**366**	220
Precious metals and jewelry	**290**	323
Investments in associates	**106**	89
Investment property	**46**	8
Total other non-financial assets	**4 301**	4 349
Total other assets	**5 238**	4 966

Other financial assets are not secured.

Movements in provision for other assets were as follows:

	2017	2016
	(in UAH millions)	
Provision for other assets at the beginning of the year	**26**	28
Provision increase/(decrease) during the year (Note 26)	**2**	11
Write-off of assets against provisions	**(8)**	(13)
Provision for other assets at the end of the year	**20**	26

All other assets are expected to be recovered within 12 months, except for non-current receivables, investment metals, and investments in associates totaling UAH 2 272 million as at 31 December 2017 (31 December 2016: UAH 2 723 million).

A geographical concentration risk analysis of other financial assets is disclosed in Note 28, credit risk analysis is disclosed in Note 29, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

13 Accounts of banks

	2017	2016
		(in UAH millions)
Correspondent accounts:		
in the national currency	**37 489**	40 508
in foreign currencies	**77**	81
Term deposits:		
in foreign currencies	–	791
Accounts of banks on special use terms:		
in the national currency	**1 778**	2 689
in foreign currencies	**650**	236
Total accounts of banks	**39 994**	44 305

Term deposits in foreign currencies are represented by accounts of banks in foreign currencies received as collateral under refinancing loans.

Obligatory reserves are accounted for on correspondent accounts of banks in the national currency (2016: on correspondent accounts in the national currency). As at 31 December 2017, obligatory reserves were calculated on the basis of a simple average over a period of the provision base determination and had to be maintained at the level of 3%–6.5% of certain obligations of banks (31 December 2016: 3%–6.5%).

As at 31 December 2017 and 2016, in accordance with the NBU regulations, banks had to provide and hold their obligatory reserves on their correspondent accounts with the NBU. In addition, according to legal acts of the NBU, it is provided with the right to set the amount of reserve requirement provisions for banks to be held on the correspondent account at the beginning of each operational day. This amount is established for the period of maintenance of reserve requirement provisions as a percentage of the reserve base, which is calculated for the determination period.

As at 31 December 2017 and 2016, no interest was accrued on the balances creating obligatory reserves on the correspondent accounts.

As at 31 December 2017 and 2016, no transfers was envisaged by banks to cover reserve requirement provisions for any assets.

Accounts of banks on special use terms as at 31 December 2017 and 2016 included the funds placed for the purposes of statutory capital increase, the accounts for making settlements by liquidation committees of banks in the process of their liquidation, and the accounts opened for other purposes specified by the laws of Ukraine and the NBU's regulations.

As at 31 December 2017 and 2016, all accounts of banks were maturing within 12 months.

A geographical concentration risk analysis of due to banks is disclosed in Note 28, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

14 Accounts of government and other institutions

	2017	2016
		(in UAH millions)
Funds of budgets and budget entities	**52 260**	45 837
Household Deposit Guarantee Fund	**3 740**	2 310
Other	**124**	402
Total accounts of government and other institutions	**56 124**	48 549

The NBU services the accounts of the State Budget of Ukraine and local budgets that are consolidated on one treasury account.

In accordance with the Law of Ukraine _On the National Bank of Ukraine_, all budget accounts are non-interest bearing, except for the accounts of Household Deposit Guarantee Fund which bore interest rates of 4.83% as at 31 December 2017 (31 December 2016: 6.62%).

As at 31 December 2017 and 2016, all accounts of government and other institutions were maturing within 12 months.

A geographical concentration risk analysis of due to government and other institutions is disclosed in Note 28, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

15 Certificates of deposit issued by the National Bank

Certificates of deposit issued by the NBU represent one of its monetary policy instruments. This is a debt security issued by the NBU in a non-documentary form evidencing the placement of banks' funds with the NBU and the right of banks to receive on maturity the funds placed, together with the interest accrued. Yield of the certificates of deposit is set by the NBU individually for each placement based on the current objectives of the monetary policies.

In 2017 transactions on placements of certificates of deposit were performed under agreements with banks for the period of one day (overnight deposits) and up to 100 days (in 2016 transactions on placements of certificates of deposit were performed under agreements with banks for the period of one day (overnight deposits) and up to 90 days).

As at 31 December 2017, the nominal value of certificates of deposit issued by the NBU was UAH 1 million each, with the initial period of placement from 5 to 91 days and a weighted average yield of 13.40% per annum (31 December 2016: a weighted average yield of 13.39% per annum and the initial period of placement from 5 to 14 days). The weighted average interest rate for certificates of deposit placed in 2017 was 12.13% per annum, and the initial period of placement varied from 1 to 91 days (2016: a weighted average yield of 16.22% per annum and the initial period of placement varied from 1 to 86 days).

As at 31 December 2017 and 2016, all certificates of deposit issued by the NBU were maturing within 12 months.

A geographical concentration risk analysis of certificates of deposits is disclosed in Note 28, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

16 Borrowings received

As at 31 December 2017 the NBU use funds in the amount USD 100 million (UAH 2 807 million) received within bilateral loan agreement between the National Bank of Ukraine and the National Bank of Switzerland.

A geographical concentration risk analysis of borrowing received is disclosed in Note 28, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is presented in Note 32.

17 Liabilities to the IMF

	2017	2016
		(in UAH millions)
Liabilities to the IMF on SDR purchases	**202 986**	166 779
Liabilities to the IMF on SDR allocations	**3 259**	2 978
Liabilities to the IMF except for quota contributions	**206 245**	169 757
Liabilities to the IMF in respect to quota settlement	**80 210**	73 354
IMF account №1	**201**	184
Liabilities to the IMF in respect to quota contributions	**80 411**	73 538
Total liabilities to the IMF	**286 656**	243 295

17 Liabilities to the IMF (continued)

Liabilities to the IMF in respect of SDR allocation represent the funds received by the NBU in respect of special SDR allocation.

Liabilities to the IMF in respect of purchases of SDR represent the loans received from the IMF by the NBU. During 2017, liabilities to the IMF increased at the cost of proceeds from the IMF in the amount of SDR 734 million (UAH 27 062 million at the official exchange rate at the date of the transaction or UAH 26 204 million at the IMF's annual exchange rate). [(During 2016, liabilities to the IMF increased at the cost of proceeds from the IMF in the amount of SDR 716 million (UAH 25 965 million at the official exchange rate at the date of the transaction or UAH 25 563 million at the IMF's annual exchange rate)] (Note 7).

IMF account No. 1 is the IMF account with the NBU in the national currency that is used for transactions with the IMF related to utilization and repayment of IMF loans. IMF account No. 2 is the IMF account with the NBU in the national currency that is used by the IMF for receipts and administrative disbursements in UAH in the territory of Ukraine.

Liabilities to the IMF in respect to quota contributions represent the liabilities in respect of quota settlement. In 2017, liabilities to the IMF in respect to quota contributions decreased by UAH 3 million due to administrative payments made by the IMF in UAH, which resulted in a respective increase in the IMF's reserve position by the amount of SDR 82 412 (UAH 3 million at the IMF's annual exchange rate).

During 2017, no changes occurred in the quota in the IMF (during 2016, Ukraine's quota in the IMF was increased by the amount of SDR 640 million (UAH 23 184 million at the official exchange rate at the transaction date or UAH 18 938 million at the annual exchange rate of the IMF) (Note 10).

During 2017, liabilities to the IMF were repaid for the amount of SDR 225 million (UAH 8 412 million at the official exchange rate at the transaction date or UAH 8 194 million at the annual exchange rate of the IMF) (during 2016, no repayments of the NBU's liability to the IMF took place) (Note 7).

All liabilities to the IMF are non-current, except for balances on the IMF accounts No. 1 and No. 2, the liability to the IMF in respect of SDR allocation, and liabilities to the IMF under the borrowing in the amount of SDR 516 million (UAH 18 796 million at the IMF's annual exchange) and interest accrued on liabilities to the IMF (during 2016 SDR 225 million (UAH 8 035 million at the IMF's annual exchange) and interest accrued on liabilities to the IMF).

A geographical concentration risk analysis of liabilities to the IMF is disclosed in Note 28, a foreign currency risk analysis is presented in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is disclosed in Note 32.

18 Other liabilities

	2017	2016
		(in UAH millions)
Other financial liabilities		
Provision for unused vacations	**382**	328
Accounts payable	**76**	71
Current accounts of employees	–	1
Other	–	1
Total other financial liabilities	**458**	401
Other non-financial liabilities		
Provision for contingent liabilities	**2 840**	2 809
Taxes payable	**9**	22
Deferred income	**1**	–
Total other non-financial liabilities	**2 850**	2 831
Total other liabilities	**3 308**	3 232

Provisions for contingent liabilities comprise the provisions created for:

Loss of cash stored in cash reserves, currency handling offices, and automated telling machines of the NBU's offices in Donetsk and Luhansk oblasts, considering the situation as a result of their temporary occupation that as at 31 December 2017 and 2016 amounts to UAH 215 million;

18 Other liabilities (continued)

Under legal or constructive obligations (as a result of past events), in particular, under lawsuits, settlement of which will most probably result in an outflow of resources embodying economic benefits (a negative outcome is more expected than not), and their amount (expense) can be measured reliably as at 31 December 2017 amounts to UAH 2 625 million (as at 31 December 2016 – UAH 2 594 million).

A geographical concentration risk analysis of other financial liabilities is provided in Note 28, a foreign currency risk analysis is provided in Note 30, an interest rate risk analysis is presented in Note 31, and a liquidity risk analysis is disclosed in Note 32.

19 Liabilities on profit distribution to the State Budget of Ukraine

The NBU determines distributable profit in accordance with Article 5 of the Law of Ukraine *On the National Bank of Ukraine*. A part in distributable profit that is payable to the State Budget of Ukraine shall be transferred in the year following the reporting year upon confirmation by an external auditor and approval by the NBU Council of the annual financial statements.

Total funds transferred by the NBU in 2017 to the State Budget of Ukraine amounted to UAH 44 379 million (2016: UAH 38 164 million).

Liabilities on profit distribution to the State Budget of Ukraine, as determined by the Law of Ukraine *On the National Bank of Ukraine*, are presented in the calculation below:

	2017	2016
		(in UAH millions)
Profit for the year attributable to the National Bank of Ukraine per the consolidated statement of comprehensive income	**62 290**	68 452
Allocation of unrealized gain on revaluation of financial assets and liabilities in foreign currency and monetary gold to revaluation reserve	**(18 792)**	(11 442)
Allocation of unrealized gain on revaluation of securities to revaluation reserve	**(412)**	(537)
Compensation of unrealized loss on revaluation of financial assets and liabilities in foreign currency and monetary gold at the cost of revaluation reserve	**166**	2 350
Realized loss on investment metals disposed	**239**	286
Realized loss on revaluation of securities disposed and derivatives	**398**	341
Allocation of unrealized gains/(losses) on operations with derivatives to revaluation reserve	**(286)**	(1)
Reversal of other reserves and result on free transfer of assets	**2 331**	–
Adjustment for negative/(positive) results of subsidiaries	**(6)**	2
Distributable profit for the year	**45 928**	**59 451**
Retained earnings for the year (Note 20)	**(1 314)**	(15 072)
Recognition of liabilities on distribution to the State Budget at the cost of:		
part in distributable profit	**44 614**	44 379
Liabilities on profit distribution to the State Budget of Ukraine	**44 614**	44 379

Profits distributable for 2017 amounted to UAH 45 928 million (including UAH 2 522 million result from reversal of other reserves and actualization of other reserves for the year; and also negative result on transferring property in the amount UAH 191 million (Note 11), of which UAH 44 614 million was recognized as liabilities on the transfer of distributable profit to the State Budget of Ukraine. Another part of profits distributable in the amount of UAH 1 314 million shall be transferred to increase general reserves to the level of 10% of total volume of the NBU's liabilities after the NBU's Council approves the annual financial statements of the NBU, the report on fulfillment of the NBU's administrative expense estimate and allocation of distributable profit for the reporting period. This amount has been included in retained earnings for 2017 (Note 20).

19 Liabilities on profit distribution to the State Budget of Ukraine (continued)

In accordance with the Law of Ukraine *On the State Budget of Ukraine for 2018*, the NBU shall, after the external auditor confirms and the NBU's Council approves the annual financial statements, and the NBU creates reserves pursuant to the procedure and in the amounts specified by the Law of Ukraine *On the National Bank of Ukraine*, transfer to the State Budget of Ukraine funds in the total amount of at least UAH 50 549 million. However, in accordance with the Law of Ukraine *On the National Bank of Ukraine*, the NBU is not entitled to transfer to the State Budget of Ukraine the amount of distributable profit that is higher than that determined in the annual financial statements as confirmed by the external auditor and approved by the NBU's Council.

20 Capital management

Capital of the NBU comprises the residual value of the NBU's assets after deduction of its liabilities.

No external capital requirements exist for the NBU as a central bank, except for the size of the statutory capital stipulated by the Law of Ukraine *On the National Bank of Ukraine*.

In accordance with the Law of Ukraine *On the National Bank of Ukraine*, the amount of statutory capital of the NBU should be UAH 10 million. The amount of statutory capital was increased to UAH 100 million based on the decision of the NBU Council regarding the results for the year ended 31 December 2007.

The NBU's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the NBU and ability to perform its functions. The total amount of equity managed by the NBU presented in consolidated statement of financial position and as at 31 December 2017 was UAH 164 893 million (31 December 2016: UAH 147 620 million).

General and other reserves of the NBU shall be created in accordance with the Law of Ukraine *On the National Bank of Ukraine* at the cost the NBU's distributable profit based on a decision of the NBU Council.

A part in distributable profit, as determined by the Law of Ukraine *On the National Bank of Ukraine*, shall be allocated to general and other reserves of the NBU.

Revaluation reserve for assets and liabilities includes unrealized gain arising on the revaluation of monetary assets and liabilities denominated in foreign currencies, monetary gold, and investment metals due to fluctuations in exchange rates of UAH against foreign currency, monetary gold, and investment metals and due to changes in the fair value of financial assets.

The composition of the NBU's equity as at 31 December 2017 was presented as follows:

	2017	2016
		(in UAH millions)
Statutory capital	**100**	100
General reserves	**45 937**	30 672
Other reserves	**5 802**	8 511
Retained earnings (Note 19)	**1 314**	15 072
Provision for revaluation of assets and liabilities	**111 740**	93 265
Total equity	**164 893**	147 620

21 Cash and cash equivalents

	Notes	2017	2016
			(in UAH millions)
Foreign currency cash	5	**1 941**	1 861
Demand deposits (other than gold, investment metals, and restricted funds)	5	**11 577**	15 511
Short-term deposits with maturities up to three months (other than gold, investment metals, and restricted funds)	5	**10 212**	31 942
Foreign securities with maturities up to three months	6	**50 456**	22 608
SDR holdings		**60 784**	73 520
Total cash and cash equivalents		**134 970**	145 442

22 Interest income and expense

	2017	2016
		(in UAH millions)
Interest income		
Income on domestic securities at amortized cost	**46 196**	49 611
Income on loans to banks and other borrowers	**6 629**	9 963
Income on accounts and deposits in foreign currency	**319**	252
Income on internal state debt	**179**	173
Income on SDR holdings	**387**	42
Other	**7**	9
Total interest income	**53 717**	60 050
Interest expense		
Expense on certificates of deposit issued by the NBU	**(6 366)**	(9 648)
Expense on operations with the IMF	**(5 036)**	(3 060)
Expenses on accounts of Household Deposit Guarantee Fund	**(141)**	(345)
Expense on borrowings received	**(88)**	(291)
Total interest expense	**(11 631)**	(13 344)
Net interest income	**42 086**	46 706

Other interest income includes interest income on loans to employees. During 2017, interest received and interest paid, which are included in cash flows from operating activities in the consolidated statement of cash flows, amounted to UAH 55 155 million (2016: UAH 61 731 million) and UAH 11 267 million (2016: UAH 13 472 million), respectively.

In 2017, income on loans to banks and other borrowers included income on impaired loans in the amount of UAH 5 330 million (2016: UAH 6 647 million), including the adjustment of interest income on impaired loans to banks in the amount of UAH 2 576 million (2016: UAH 867 million) (Note 9).

23 Other income

	2017	2016
		(in UAH millions)
Income on sale of investment and commemorative coins, souvenirs and other products	**1 028**	595
Excess of payments under debt securities over their fair values	**87**	60
Fines, penalties, and forfeits received	**80**	27
Other	**57**	50
Total other income	**1 252**	732

24 Staff costs

	2017	2016
		(in UAH millions)
Payroll of staff	**1 082**	1 197
Single contribution for mandatory state social security and contributions to non-state pension funds	**247**	221
Financial aid and other social benefits	**2**	6
Other	**36**	9
Total staff costs	**1 367**	1 433

Included in other staff costs were staff training and development costs, expenditures for voluntary medical insurance of employees, etc.

25 Administrative and other expenses

	2017	2016
		(in UAH millions)
Consulting and legal services	**444**	184
Depreciation and amortization	**262**	324
Utilities and household expenses	**155**	136
Expenses for maintenance of non-current tangible and intangible assets	**142**	135
Taxes, duties, and charges	**108**	44
Telecommunication services and maintenance	**29**	28
Business trips	**20**	16
Other	**99**	102
Total administrative and other expenses	**1 259**	969

Depreciation and amortization charges for 2017 exclude depreciation in the amount of UAH 228 million (2016: UAH 235 million) in respect of property and equipment used in the production of banknote paper, banknotes, coins, and other products. This portion of depreciation and amortization charges is included in the costs related to production of banknotes, coins, and other products.

Other expenses include costs related financial aid paid for training of students, remuneration to members of the NBU Council, cost of sales of the services of the sewage treatment facilities of the Banknote Paper Mill etc.

26 Net decrease in provisions

	Notes	**2017**	2016
			(in UAH millions)
Net decrease/(increase) in provisions:			
Loans to banks and other borrowers	9	**3 151**	875
Other assets	12	**(2)**	(11)
Total net decrease/(increase) in provisions		**3 149**	864

27 Financial risk management

Risk management objectives of the NBU are as follows:

Promote to achieving the NBU's strategic objectives and effective fulfillment of its functions specified in the Law of Ukraine "On the National Bank of Ukraine";

Support the institutional capability and independence of the NBU through protection of its assets, equity, and reputation;

Maintain confidence in the NBU and policies determined and exercised by it.

The NBU's risk management system is a set of actions and policies, methodologies, orders, regulations and procedures which enable NBU to perform comprehensive risk management at all levels.

The NBU's risk management system is comprehensive and is based on the thorough management of the NBU's risks as a systematic and ongoing process maintained by the Council, the Board, and all employees of the NBU that commences in the course of developing the NBU's strategy and covers all aspects of its activities.

The National bank defines the following principles of financial risk management: adding value, balanced, versatile and comprehensive, integrated in decision making, objective risk assessment, effective, systematic, structured, timely, allocating responsibilities (segregation of control function from operations in the NBU), independent, adaptive, confidential, transparent.

In accordance with Law of Ukraine *On the National Bank of Ukraine* the Board of the NBU establishes the Asset/Liability Committee of the NBU to which the powers were delegated to make decisions on issues of asset and liability management, including international reserves ensuring the monitoring of risks and financial results of operations with assets and liabilities of the NBU.

Risk profile of the NBU is formed by financial and non-financial risks. Non-financial risks include the NBU's risks arising from non-financial risk factors. Financial risks include the NBU's risks arising from financial instruments. Principal types of financial risks inherent to the NBU's activities are credit, foreign currency, interest rate, and liquidity risks.

To cover potential losses from realization of financial risks of the NBU attributable to performance of the NBU's functions, provisions are created in accordance with specific regulations.

Credit risk

Credit risk is the risk to incur losses in the event a debtor or counterparty fails to perform its financial obligations to the NBU in accordance with the terms and conditions agreed. Credit risk may have the following symptoms:

Risk of a borrower's default – exposure to decreased income or capital of the NBU arising from the failure of a borrower to fulfill its obligations under debt financial instruments (i.e. risk that the borrower will not pay interest, fees and commissions, and principal at all);

Risk of loan collateral – risk that, as a result of collateral sale, lender's claims will not be satisfied in full;

Settlement risk – exposure to decreased income or capital of the NBU arising from the failure of a counterparty to fulfill the obligations assumed on delivery of cash or base asset in the event that, before receiving relevant assets from the counterparty, the NBU transferred (assigned irrevocably to transfer) cash or base asset to the counterparty.

Credit risk management of the NBU is performed through the following actions:

Defining the minimum acceptable credit ratings of counterparties;

Setting long-term credit limits for outstanding amounts of foreign counterparties and securities issuers to the NBU (both general and by individual financial instruments);

Setting limits on standard duration (average maturity) level for the placements of funds by currency and type of financial instruments;

Utilizing collateral and other types of security to perform liabilities;

Diversifying the placement of funds into financial instruments with varied counterparties allowed to cooperate with in view of their risk exposure characteristics;

Creating provisions of the NBU to cover credit risks related to the performance of its functions.

27 Financial risk management (continued)

Market risks

Market risks are the risks that the NBU will incur losses as a result of adverse movements in market prices (exchange rates, interest rates, currency spreads, stock or commodity prices, etc.). Depending on the factors leading to losses, the NBU singles out the following types of market risks:

Foreign currency risk is the risk of losses due to unfavorable changes in foreign currency exchange rates;

Interest rate risk is the risk to incur losses due to adverse movements in interest rates;

Currency spread risk is the risk to incur losses as a result of the increase in credit spreads in the market.

Market risks are managed by the NBU by:

Setting limits on absolute and relative indicators of specific types of market risks (including with reference to the standard selected);

Diversifying them.

The following table summarizes sensitivity of the NBU's positions regarding foreign currency risk estimated on the assumption of 5% increase and decrease in the exchange rates of USD, EUR, SDR, and other currencies against UAH in 2017 and 2016, respectively. The analysis considers only foreign currency denominated amounts (except for non-monetary assets) available at the end of the period in translating of which the rates adjusted by 5% were applied at the end of 2017 and 2016, respectively.

The effect of movements in exchange rates on profit or loss and equity was as follows:

	31 December 2017		**31 December 2016**	
				(in UAH millions)
	+5%	*-5%*	*+5%*	*-5%*
USD	15 262	(15 262)	11 694	(11 694)
EUR	2 122	(2 122)	1 504	(1 504)
SDR	(7 229)	7 229	(4 789)	4 789
GBP	577	(577)	472	(472)
Other currencies	1 440	(1 440)	939	(939)

The table below presents the sensitivity analysis to the NBU's positions regarding interest rate risk. The effect on profit or loss and equity was as follows:

	31 December 2017		**31 December 2016**	
				(in UAH millions)
	+100 bp	*-100 bp*	*+100 bp*	*-100 bp*
Sensitivity of financial assets	3 566	(3 566)	2 125	(2 125)
Sensitivity of financial liabilities	(2 666)	2 666	(2 295)	2 295
Net impact on profit or loss and distributable profit	900	(900)	(170)	170

Sources of interest rate risk are identified through the analysis of the existing structure of interest-bearing assets and liabilities. The NBU assesses interest rate risk by analyzing the sensitivity to fluctuations in interest rates, i.e., changes in the market value of instruments and portfolios as a result of movements in the yield curve by a certain number of basis points. In accordance with the methodology, the scenarios applied include a parallel shift of the whole curve by 1 percentage point (+/-100 basis points). The sensitivity of interest rate risk is estimated based on the scenario according to which all interest rate curves are treated as the ones changing in identical fashion irrespective of a financial instrument or currency. Estimates include the interest rate risk by all positions of the NBU for instruments with fixed and fluctuating interest rates as defined by a respective model.

27 Financial risk management (continued)

Liquidity risk

Liquidity risk is defined as the risk when an entity has no available funds due to its inability to sell assets in the required quantity within the acceptable period of time without a significant deterioration of their value as a result of unfavorable situation in the market.

The NBU manages its liquidity risk by:

Maintaining certain regulatory levels of reserve assets in the form of cash on the NBU's correspondent accounts;

Maintaining the sufficient amount of highly liquid financial instruments that can be easily translated to cash;

Setting liquidity requirements to the NBU's assets.

A detailed analysis of exposures to the above risks is disclosed in Notes from 28 to 32.

28 Analysis of financial assets and liabilities by geographical concentration risk

A geographical concentration risk analysis of the NBU's financial assets and liabilities as at 31 December 2017 was as follows:

	Ukraine	**OECD countries**	**IMF**	**Other**	**Total**
					(in UAH millions)
Financial assets					
Funds and deposits in foreign currencies	1 941	21 859	–	–	**23 800**
Foreign securities	–	362 725	–	51 730	**414 455**
SDR holdings	–	–	60 860	–	**60 860**
Domestic securities	372 697	–	–	–	**372 697**
Loans to banks and other borrowers	32 417	–	–	–	**32 417**
Internal state debt	1 926	–	–	–	**1 926**
IMF quota contributions	–	–	80 415	–	**80 415**
Other financial assets	137	–	800	–	**937**
Total financial assets	**409 118**	**384 584**	**142 075**	**51 730**	**987 507**
Financial liabilities					*(in UAH millions)*
Banknotes and coins in circulation	361 544	–	–	–	**361 544**
Accounts of banks	39 994	–	–	–	**39 994**
Accounts of government and other institutions	56 123	1	–	–	**56 124**
Certificates of deposit issued by the NBU	67 024	–	–	–	**67 024**
Borrowings received	–	2 807	–	–	**2 807**
Liabilities to the IMF except for quota contributions	–	–	206 245	–	**206 245**
Liabilities to the IMF in respect to quota contributions	–	–	80 411	–	**80 411**
Other financial liabilities	421	37	–	–	**458**
Total financial liabilities	**525 106**	**2 845**	**286 656**	**–**	**814 607**
Net balance sheet position	**(115 988)**	**381 739**	**(144 581)**	**51 730**	**172 900**

28 Analysis of financial assets and liabilities by geographical concentration risk (continued)

A geographical concentration risk analysis of the NBU's financial assets and liabilities as at 31 December 2016 was as follows:

	Ukraine	OECD countries	IMF	Other	Total
					(in UAH millions)
Financial assets					
Funds and deposits in foreign currencies	1 861	47 839	–	3	**49 703**
Foreign securities	–	265 625	–	9 704	**275 329**
SDR holdings	–	–	73 546	–	**73 546**
Domestic securities	394 454	–	–	–	**394 454**
Loans to banks and other borrowers	35 456	–	–	–	**35 456**
Internal state debt	2 002	–	–	–	**2 002**
IMF quota contributions	–	–	73 538	–	**73 538**
Other financial assets	184	–	433	–	**617**
Total financial assets	**433 957**	**313 464**	**147 517**	**9 707**	**904 645**
Financial liabilities					
Banknotes and coins in circulation	341 059	–	–	–	**341 059**
Accounts of banks	44 299	–	–	6	**44 305**
Accounts of government and other institutions	48 541	8	–	–	**48 549**
Certificates of deposit issued by the NBU	68 073	–	–	–	**68 073**
Liabilities to the IMF except for quota contributions	–	–	169 757	–	**169 757**
Liabilities to the IMF in respect to quota contributions	–	–	73 538	–	**73 538**
Other financial liabilities	351	48	–	2	**401**
Total financial liabilities	**502 323**	**56**	**243 295**	**8**	**745 682**
Net balance sheet position	**(68 366)**	**313 408**	**(95 778)**	**9 699**	**158 963**
Off-balance sheet commitments					
Commitments for granting loans to foreign central banks	–	–	–	57 140	**57 140**
Net off-balance sheet position (Note 33)	–	–	**–**	**(57 140)**	**(57 140)**
Net position	**(68 366)**	**313 408**	**(95 778)**	**(47 441)**	**101 823**

29 Credit risk

Financial assets of the NBU are classified by the lowest of the ratings assigned to the NBU's counterparties by the international rating agencies of Fitch Ratings, Moody's, and Standard & Poor's. The ratings are listed below as per coding of the rating agency of Fitch Ratings using the rating correspondence table of Bloomberg information system.

		2017		2016	
	Credit rating	**Amount**	**% in financial assets**	Amount	% in financial assets
Financial assets – neither past due nor impaired:					*(in UAH millions)*
Funds and deposits in foreign currencies:					
Demand deposits	**AAA**	**7 739**	**32,5**	1 341	2,7
	AA+	**8**	**0,0**	8	0,0
	AA	**39**	**0,2**	52	0,1
	AA-	**2 263**	**9,5**	4 673	9,4
	A+	**1 522**	**6,4**	9 737	19,6
	A	**46**	**0,2**	4	0,0
	A-	**25**	**0,1**	52	0,1
Term deposits	**AAA**	**2 146**	**9,0**	14 548	29,3
	AA+	**679**	**2,9**	82	0,2
	AA-	**1 535**	**6,4**	254	0,5
	A	**5 155**	**21,7**	17 091	34,4
	A-	**702**	**2,9**	–	–
Foreign currency cash	**Riskless**	**1 941**	**8,2**	1 861	3,7
Total funds and deposits in foreign currencies:		**23 800**	**100,0**	**49 703**	100,0
Foreign securities:					
Government bonds	**AAA**	**8 248**	**2,0**	10 577	3,8
	AA+	**166 036**	**40,1**	145 400	52,8
	AA	**6 049**	**1,4**	5 044	1,8
	AA-	**9 010**	**2,1**	9 892	3,6
	A+	**2 778**	**0,7**	1 343	0,5
Bonds of international agencies, banks, and other issuers	**AAA**	**62 471**	**15,1**	54 047	19,6
	AA+	**11 089**	**2,7**	6 797	2,5
	AA	**4 029**	**1,0**	4 410	1,6
	AA-	**20 234**	**4,9**	14810	5,4

29 Credit risk (continued)

	Credit rating	**2017** Amount	**2017** % in financial assets	2016 Amount	2016 % in financial assets
					(in UAH millions)
	A+	**52 958**	**12,8**	15 617	5,7
	A	**67 728**	**16,3**	3 068	1,1
	A-	**3 704**	**0,9**	4 203	1,6
Total foreign debt securities		**414 334**	**100,0**	**275 208**	**100,0**
Domestic securities	**CCC**	**371 743**	**99,7**	–	–
	CCC-	–	–	392 441	99,5
	Not rated	**954**	**0,3**	2 013	0,5
Total domestic securities		**372 697**	**100,0**	**394 454**	**100,0**
Loans to banks and other borrowers:					
Loans granted to banks to support their liquidity and loans granted to Household Deposit Guarantee Fund					
	CCC	**4 995**	**39,9**	–	–
	CC	–	–	2 559	20,9
	B-	**624**	**5,0**	–	–
	Not rated	**6 909**	**55,1**	9 692	79,1
Total loans to banks and other borrower		**12 528**	**100,0**	12 251	100,0
Other financial assets	**AAA**	**798**	**85,2**	433	70,3
	CCC	**2**	**0,2**	–	–
	CC	–	–	1	0,2
	Not rated	**137**	**14,6**	182	29,5
Total other financial assets		**937**	**100,0**	616	100,0

Domestic securities that do not have an international rating assigned are represented by corporate bonds of state-owned enterprises the rating of which is restricted by the sovereign rating of Ukraine.

Total amount of loans to five banks with the largest exposure outstanding as at 31 December 2017 was UAH 46 660 million (31 December 2016: UAH 53 852 million), or 62% (31 December 2016: 64%) of the total amount of loans to banks and other borrowers before provisioning. Recognized provision for loans granted to those five banks was equal to UAH 29 189 million as at 31 December 2017 (31 December 2016: UAH 35 132 million).

Summarized below is information on net credit risk by types of collateral received as at 31 December 2017:

	Maximum credit risk exposure	**Cost of collateral accepted as security**	**Net credit risk (loans to banks)**	**Net credit risk (loans granted to Household Deposit Guarantee Fund and other)**
				(in UAH millions)
Loans secured by:				
Real estate	15 436	34 386	15 241	–
Securities	15 096	20 938	2 762	–
Other types of collateral	1 885	4 215	1 885	–
Total loans to banks and other borrowers	**32 417**	**59 539**	**19 888**	–

29 Credit risk (continued)

Summarized below is information on net credit risk by types of collateral received as at 31 December 2016:

	Maximum credit risk exposure	Cost of collateral accepted as security	Net credit risk (loans to banks)	Net credit risk (loans granted to Household Deposit Guarantee Fund and other)
Loans secured by:				*(in UAH millions)*
Real estate	16 086	30 766	15 806	–
Securities	14 383	13 556	2 425	4 158
Other types of collateral	3 091	5 614	3 078	–
Loans unsecured	1 896	–	1 896	–
Total loans to banks and other borrowers	**35 456**	**49 936**	**23 205**	**4 158**

Maximum exposure of credit risk is represented by the carrying amounts of loans due at the reporting date. Collateral accepted as security is the fair value of collateral accepted by the NBU at the moment of creating provisions at the reporting date.

For the impaired banks cash flows from which are expected to obtain only through the sale of collateralized properties, the net credit risk is equal to the maximum credit risk exposure.

For the unimpaired banks and Household Deposit Guarantee Fund, net credit risk is estimated as the difference between the maximum credit risk exposure and the value of collateral accepted as security.

30 Foreign currency risk

As at 31 December 2017, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
Financial assets								*(in UAH millions)*
Funds and deposits in foreign currencies	–	16 532	5 711	–	733	824	–	23 800
Foreign securities	–	334 393	41 150	–	10 799	27 992	121	414 455
SDR holdings	–	–	–	60 860	–	–	–	60 860
Domestic securities	372 022	675	–	–	–	–	–	372 697
Loans to banks and other borrowers	32 417	–	–	–	–	–	–	32 417
Internal state debt	1 926	–	–	–	–	–	–	1 926
IMF quota contributions	–	–	–	80 415	–	–	–	80 415
Other financial assets	137	–	–	800	–	–	–	937
Total financial assets	**406 502**	**351 600**	**46 861**	**142 075**	**11 532**	**28 816**	**121**	**987 507**
Financial liabilities								
Banknotes and coins in circulation	361 544	–	–	–	–	–	–	361 544
Accounts of banks	39 267	626	94	–	2	5	–	39 994
Accounts of government and other institutions	8 904	42 902	4 318	–	–	–	–	56 124
Certificates of deposit issued by the NBU	67 024	–	–	–	–	–	–	67 024
Borrowings received	–	2 807	–	–	–	–	–	2 807
Liabilities to the IMF except for quota contributions	–	–	–	206 245	–	–	–	206 245
Liabilities to the IMF in respect to quota contributions	–	–	–	80 411	–	–	–	80 411
Other financial liabilities	415	18	15	–	–	10	–	458
Total financial liabilities	**477 154**	**46 353**	**4 427**	**286 656**	**2**	**15**	**–**	**814 607**
Net balance sheet position	**(70 652)**	**305 247**	**42 434**	**(144 581)**	**11 530**	**28 801**	**121**	**172 900**

30 Foreign currency risk (continued)

As at 31 December 2016, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
Financial assets								*(in UAH millions)*
Funds and deposits in foreign currencies	–	25 693	3 718	–	1 789	18 503	–	**49 703**
Foreign securities	–	236 754	29 925	–	7 655	874	121	**275 329**
SDR holdings	–	–	–	73 546	–	–	–	**73 546**
Domestic securities	394 097	357	–	–	–	–	–	**394 454**
Loans to banks and other borrowers	35 456	–	–	–	–	–	–	**35 456**
Internal state debt	2 002	–	–	–	–	–	–	**2 002**
IMF quota contributions	–	–	–	73 538	–	–	–	**73 538**
Other financial assets	184	–	–	433	–	–	–	**617**
Total financial assets	**431 739**	**262 804**	**33 643**	**147 517**	**9 444**	**19 377**	**121**	**904 645**
Financial liabilities								
Banknotes and coins in circulation	341 059	–	–	–	–	–	–	**341 059**
Accounts of banks	43 197	721	378	–	1	8	–	**44 305**
Accounts of government and other institutions	16 617	28 194	3 147	–	–	591	–	**48 549**
Certificates of deposit issued by the NBU	68 073	–	–	–	–	–	–	**68 073**
Liabilities to the IMF except for quota contributions	–	–	–	169 757	–	–	–	**169 757**
Liabilities to the IMF in respect to quota contributions	–	–	–	73 538	–	–	–	**73 538**
Other financial liabilities	351	13	37	–	–	–	–	**401**
Total financial liabilities	**469 297**	**28 928**	**3 562**	**243 295**	**1**	**599**	**–**	**745 682**
Net balance sheet position	**(37 558)**	**233 876**	**30 081**	**(95 778)**	**9 443**	**18 778**	**121**	**158 963**

Assets and liabilities in other currencies mainly included positions in CHF, AUD, JPY, and CNY.

31 Interest rate risk

As at 31 December 2017, the NBU had the following structure of the weighted average interest rates by major currencies for monetary financial interest-bearing instruments. The analysis has been prepared using the weighted-average contractual rates at the reporting date.

31 Interest rate risk (continued)

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate
Financial assets							*(in %)*
Term deposits in OECD countries	–	1,51	(0,48)	–	0,49	0,80	1,27
Foreign securities	–	1,98	0,16	–	0,62	2,21	1,78
SDR holdings	–	–	–	0,74	–	–	0,74
Domestic securities	12,02	–	–	–	–	–	12,02
Loans to banks and other borrowers	16,42	–	–	–	–	–	16,42
Internal state debt	8,54	–	–	–	–	–	8,54
Financial liabilities							
Household Deposit Guarantee Fund	4,83	–	–	–	–	–	4,83
Certificates of deposit issued by the NBU	13,40	–	–	–	–	–	13,40
Borrowings received	–	4,06	–	–	–	–	4,06
Liabilities to the IMF except for quota contributions	–	–	–	2,75	–	–	2,75

The sign "–" in the table above means that the NBU has no respective interest-bearing assets or liabilities in corresponding currency.

Interest is accrued at floating rates on SDR holdings and liabilities to the IMF (interest rates are reviewed on a weekly basis).

Interest rates used for accruing expenses on accounts of Household Deposit Guarantee Fund are not fixed, and their amounts correspond to weighted average interest rates on demand deposits of individuals in the national currency.

Interest on foreign securities is accrued at both variable and fixed rates.

As at 31 December 2016, the NBU had the following structure of the weighted average interest rates by major currencies for monetary financial interest-bearing instruments. The analysis has been prepared using the weighted-average contractual rates at the reporting date.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate *(in %)*
Financial assets							
Term deposits in OECD countries	–	0,86	–	–	0,32	6,16	2,74
Foreign securities	–	1,19	(0,07)	–	0,46	2,16	1,03
SDR holdings	–	–	–	0,24	–	–	0,24
Domestic securities	13,31	–	–	–	–	–	13,31
Loans to banks and other borrowers	18,68	–	–	–	–	–	18,68
Internal state debt	8,66	–	–	–	–	–	8,66
Financial liabilities							
Household Deposit Guarantee Fund	6,62	–	–	–	–	–	6,62
Certificates of deposit issued by the NBU	13,39	–	–	–	–	–	13,39
Liabilities to the IMF except for quota contributions	–	–	–	2,23	–	–	2,23

31 Interest rate risk (continued)

Analysis of assets and liabilities by periods of interest rate repricing

The table below summarizes concentration of interest rates by periods of repricing categorized by the earlier of contractual repricing.

For financial assets and liabilities with fixed interest rates, classification was determined based on the contractual maturity date from the consolidated statement of financial position date. For assets and liabilities with variable interest rates, classification was determined taking into account the earlier of repricing period or maturity date.

As at 31 December 2017, the NBU's financial assets and liabilities by periods of interest rate repricing were as follows:

(in UAH millions)

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest-bearing	Total
Financial assets							
Funds and deposits in foreign currencies	21 740	–	–	–	–	2 060	**23 800**
Foreign securities	15 250	66 041	96 836	234 117	2 090	121	**414 455**
SDR holdings	60 860	–	–	–	–	–	**60 860**
Domestic securities	149 208	10 717	9 017	46 355	156 725	675	**372 697**
Loans to banks and other borrowers	12 512	2 675	5 115	12 115	–	–	**32 417**
Internal state debt	–	27	80	428	1 391	–	**1 926**
IMF quota contributions	–	–	–	–	–	80 415	**80 415**
Other financial assets	6	3	11	38	25	854	**937**
Total financial assets	**259 576**	**79 463**	**111 059**	**293 053**	**160 231**	**84 125**	**987 507**
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	361 544	**361 544**
Accounts of banks	–	–	–	–	–	39 994	**39 994**
Accounts of government and other institutions	3 740	–	–	–	–	52 384	**56 124**
Certificates of deposit issued by the NBU	64 595	2 429	–	–	–	–	**67 024**
Borrowings received	–	2 807	–	–	–	–	**2 807**
Liabilities to the IMF except for quota contributions	205 303	–	–	–	–	942	**206 245**
Liabilities to the IMF in respect to quota contributions	–	–	–	–	–	80 411	**80 411**
Other financial liabilities	–	–	–	–	–	458	**458**
Total financial liabilities	**273 638**	**5 236**	**–**	**–**	**–**	**535 733**	**814 607**
Net gap	**(14 062)**	**74 227**	**111 059**	**293 053**	**160 231**	**(451 608)**	**172 900**
Cumulative gap	**(14 062)**	**60 165**	**171 224**	**464 277**	**624 508**	**172 900**	

31 Interest rate risk (continued)

As at 31 December 2016, the NBU's financial assets and liabilities by periods of interest rate repricing were as follows:

(in UAH millions)

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest-bearing	Total
Financial assets							
Funds and deposits in foreign currencies	44 628	–	–	–	–	5 075	**49 703**
Foreign securities	11 324	27 101	68 563	166 421	1 799	121	**275 329**
SDR holdings	73 546	–	–	–	–	–	**73 546**
Domestic securities	2 803	9 206	36 988	196 584	148 516	357	**394 454**
Loans to banks and other borrowers	11 376	504	11 878	11 698	–	–	**35 456**
Internal state debt	–	26	79	422	1 475	–	**2 002**
IMF quota contributions	–	–	–	–	–	73 538	**73 538**
Other financial assets	9	4	16	55	36	497	**617**
Total financial assets	**143 686**	**36 841**	**117 524**	**375 180**	**151 826**	**79 588**	**904 645**
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	341 059	**341 059**
Accounts of banks	–	–	–	–	–	44 305	**44 305**
Accounts of government and other institutions	2 310	–	–	–	–	46 239	**48 549**
Certificates of deposit issued by the NBU	68 073	–	–	–	–	–	**68 073**
Liabilities to the IMF except for quota contributions	169 134	–	–	–	–	623	**169 757**
Liabilities to the IMF in respect to quota contributions	–	–	–	–	–	73 538	**73 538**
Other financial liabilities	–	–	–	–	–	401	**401**
Total financial liabilities	**239 517**	–	–	–	–	**506 165**	**745 682**
Net gap	**(95 831)**	**36 841**	**117 524**	**375 180**	**151 826**	**(426 577)**	**158 963**
Cumulative gap	**(95 831)**	**(58 990)**	**58 534**	**433 714**	**585 540**	**158 963**	

As at 31 December 2017, a portion of foreign securities bearing variable interest rates amounted to 7.32% of the total portfolio (31 December 2016: 6.29%).

32 Liquidity risk

For the purposes of liquidity risk estimation, financial assets are grouped by the period remaining as at the reporting date to repayment of the contractual cash flows. IMF quota are contributions are presented as assets on demand, based on Article XXVI of the IMF Agreement, but such presentation does not mean that there are expectations that Ukraine will take advantage of this article. Financial liabilities are grouped by the remaining contractual maturity at the reporting date.

The amounts of financial assets and liabilities disclosed in the liquidity risk table below are the contractual discounted cash flows. Derivatives settled on a net basis are included at the net amounts expected to be paid. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

When the amounts payable are not fixed, the amounts disclosed are determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rates at the reporting date.

32 Liquidity risk (continued)

The NBU's liquidity risk position as at 31 December 2017 was as follows:

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
							(in UAH millions)
Financial assets							
Funds and deposits in foreign currencies	23 800	–	–	–	–	–	**23 800**
Foreign securities	8 656	42 529	100 852	260 207	2 090	121	**414 455**
SDR holdings	60 860	–	–	–	–	–	**60 860**
Domestic securities	4 035	10 717	9 017	46 355	302 573	–	**372 697**
Loans to banks and other borrowers	4 739	2 675	5 115	12 115	–	7 773	**32 417**
Internal state debt	–	27	80	428	1 391	–	**1 926**
IMF quota contributions	80 415	–	–	–	–	–	**80 415**
Other financial assets	6	3	14	852	41	21	**937**
Total financial assets	**182 511**	**55 951**	**115 078**	**319 957**	**306 095**	**7 915**	**987 507**
Financial liabilities							
Banknotes and coins in circulation	361 544	–	–	–	–	–	**361 544**
Accounts of banks	39 994	–	–	–	–	–	**39 994**
Accounts of government and other institutions	56 124	–	–	–	–	–	**56 124**
Certificates of deposit issued by the NBU	64 595	2 429	–	–	–	–	**67 024**
Borrowings received	–	–	–	–	2 807	–	**2 807**
Liabilities to the IMF except for quota contributions	–	6 086	15 430	89 888	91 586	3 255	**206 245**
Liabilities to the IMF in respect to quota contributions	80 411	-	-	-	-	-	**80 411**
Other financial liabilities	5	5	398	–	–	50	**458**
Total future payments under financial liabilities	**602 673**	**8 520**	**15 828**	**89 888**	**94 393**	**3 305**	**814 607**
Liquidity gap arising from financial instruments	**(420 162)**	**47 431**	**99 250**	**230 069**	**211 702**	**4 610**	**172 900**
Cumulative liquidity gap	**(420 162)**	**(372 731)**	**(273 481)**	**(43 412)**	**168 290**	**172 900**	

32 Liquidity risk (continued)

The NBU's liquidity risk position as at 31 December 2016 was as follows:

	On demand and up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Maturity not defined**	**Total**
							(in UAH millions)
Financial assets							
Funds and deposits in foreign currencies	49 703	–	–	–	–	–	**49 703**
Foreign securities	6 418	16 749	73 309	176 933	1 799	121	**275 329**
SDR holdings	73 546	–	–	–	–	–	**73 546**
Domestic securities	2 803	8 206	37 988	196 584	148 873	–	**394 454**
Loans to banks and other borrowers	1 550	504	11 878	11 698	–	9 826	**35 456**
Internal state debt	–	26	79	422	1 475	–	**2 002**
IMF quota contributions	73 538	–	–	–	–	–	**73 538**
Other financial assets	17	5	17	500	52	26	**617**
Total financial assets	**207 575**	**25 490**	**123 271**	**386 137**	**152 199**	**9 973**	**904 645**
Financial liabilities							
Banknotes and coins in circulation	341 059	–	–	–	–	–	**341 059**
Accounts of banks	44 305	–	–	–	–	–	**44 305**
Accounts of government and other institutions	48 549	–	–	–	–	–	**48 549**
Certificates of deposit issued by the NBU	68 073	–	–	–	–	–	**68 073**
Liabilities to the IMF except for quota contributions	–	623	8 198	72 866	85 093	2 977	**169 757**
Liabilities to the IMF in respect to quota contributions	73 538	–	–	–	–	–	**73 538**
Other financial liabilities	4	–	5	–	–	392	**401**
Commitments for granting loans to foreign central banks	57 140	–	–	–	–	–	**57 140**
Total future payments under financial liabilities	**632 668**	**623**	**8 203**	**72 866**	**85 093**	**3 369**	**802 822**
Liquidity gap arising from financial instruments	**(425 093)**	**24 867**	**115 068**	**313 271**	**67 106**	**6 604**	**101 823**
Cumulative liquidity gap	**(425 093)**	**(400 226)**	**(285 158)**	**28 113**	**95 219**	**101 823**	

The amounts stated in the tables below do not correspond to the amounts recorded in the consolidated statement of financial position, since the below information includes maturity analysis of financial liabilities which reflects the total contractual balances (including interest payable) that are not recognized in the consolidated statement of financial position.

32 Liquidity risk (continued)

Repayment periods under contractual undiscounted cash flows from financial liabilities as at 31 December 2017 were as follows:

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
							(in UAH millions)
Financial liabilities							
Banknotes and coins in circulation	361 544	–	–	–	–	–	**361 544**
Accounts of banks	39 994	–	–	–	–	–	**39 994**
Accounts of government and other institutions	56 124	–	–	–	–	–	**56 124**
Certificates of deposit issued by the NBU	64 704	2 479	–	–	–	–	**67 183**
Borrowings received	–	28	85	456	2 826	–	**3 395**
Liabilities to the IMF except for quota contributions	–	6 538	19 477	103 454	94 579	3 255	**227 303**
Liabilities to the IMF in respect to quota contributions	80 411	–	–	–	–	–	**80 411**
Other financial liabilities	5	5	398	–	–	50	**458**
Total future payments under financial liabilities	**602 782**	**9 050**	**19 960**	**103 910**	**97 405**	**3 305**	**836 412**

Repayment periods under contractual undiscounted cash flows from financial liabilities as at 31 December 2016 were as follows:

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
							(in UAH millions)
Financial liabilities							
Banknotes and coins in circulation	341 059	–	–	–	–	–	**341 059**
Accounts of banks	44 305	–	–	–	–	–	**44 305**
Accounts of government and other institutions	48 549	–	–	–	–	–	**48 549**
Certificates of deposit issued by the NBU	68 229	–	–	–	–	–	**68 229**
Liabilities to the IMF except for quota contributions	–	953	11 126	82 699	87 828	2 977	**185 583**
Liabilities to the IMF in respect to quota contributions	73 538	–	–	–	–	–	**73 538**
Other financial liabilities	4	–	5	–	–	392	**401**
Commitments for granting loans to foreign central banks	57 140	–	–	–	–	–	**57 140**
Total future payments under financial liabilities	**632 824**	**953**	**11 131**	**82 699**	**87 828**	**3 369**	**818 804**

33 Off-balance sheet commitments and derivative financial instruments

Loan commitments

Loan commitments include the following:

	2017	2016
	(in UAH millions)	
Liabilities on granting loans to central banks of other countries in the national currency	–	57 140
Total loan commitments	–	57 140

Loan commitments represent the unused amounts of loans to banks.

Capital commitments

As at 31 December 2017, the NBU had capital commitments in respect of acquisition, construction, and improvement of property and equipment and intangible assets totaling to UAH 87 million (31 December 2016: UAH 70 million).

Derivative financial instruments

The NBU carried out transactions with futures for the purposes of regulating the interest rate risk since October 2013 under Investment Management and Consulting Services Agreement between the NBU and the International Bank for Reconstruction and Development.

As at 31 December 2017, the NBU had 300 long stock-exchange interest futures contracts maturing in March 2018 the notional value of which equaled to UAH 1 803 million or USD 64 million, and 396 short stock-exchange interest futures contracts maturing from March 2018 to September 2022 the notional value of which equaled to UAH 2 719 million or USD 97 million (31 December 2016: 85 long stock-exchange interest futures contracts maturing in March 2017 the notional value of which equaled to UAH 501 million or USD 18 million, and 214 short stock-exchange interest futures contracts maturing from March 2017 to December 2019 the notional value of which equaled to UAH 1 380 million or USD 51 million). Funds for settlements under futures transactions in the amount of UAH 6 million (2016: UAH 3 million) were measured at fair value and included in funds and deposits in foreign currency (Note 5).

Legal proceedings

From time to time and in the normal course of business, claims against the NBU occur. On certain claims for the total amount of UAH 1 985 million, there is a possibility of potential losses, although it is not high. As for other claims, management estimates that the NBU will not incur losses. Accordingly, no provision has been created in these consolidated financial statements.

The NBU is also a defendant in claims for restoration of some banks. At present, the mechanism of restoration of banks in Ukraine is not regulated by law.

34 Fair value of financial assets and liabilities

The estimated fair values of financial assets and liabilities have been determined by the NBU using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret the market data to determine the estimated fair value. As disclosed in Note 4, the economy of Ukraine displays characteristics of an emerging market, and the level of activity in financial markets of Ukraine at the moment is low. As such, the estimates may not be fully reflective of the value that could be realized by the NBU in the current circumstances.

Financial assets and liabilities carried at fair value. Foreign debt securities are recorded in the consolidated statement of financial position at their fair values. Fair value of these securities is based on quoted prices in an active market. The fair value of major part of the internal state debt securities measured at fair value was based on quoted prices in the market that was not active (31 December 2016: the fair value of majority of domestic securities measured at fair value was based on quoted prices in the market that was not active).

The NBU has estimated that the fair value of certain financial assets and liabilities is not significantly different from their carrying values. These financial instruments include funds and deposits in foreign currencies, SDR holdings and IMF quota contributions, other financial assets, banknotes and coins in circulation, accounts of banks, accounts of government and other institutions, certificates of deposit issued by the NBU and liabilities to the IMF, other financial liabilities.

Fair values of those financial instruments for which no active market exists have been estimated by the NBU using discounted cash flow techniques. These models takes into account future interest payments and principal repayments, the repayment period, and the discount factor.

For the purposes of estimating fair values of domestic securities for which no active market existed, the NBU used the income approach and:

For long-term inflation government bonds, Level 2 inputs (spot rates calculated on the basis of the zero-coupon yield curve built on the data of actually concluded and performed agreements of DGLBs using the Nelson-Siegel parametric model and actual consumer price indices for a month period in respect of the prior month during the period from September to November 2017) and Level 3 inputs (the December 2017 FocusEconomics consensus forecast of consumer price indices for the next five years and target consumer price indices established by the NBU for the period from year 6 to year 30);

For other government bonds of Ukraine, Level 2 inputs (spot rates calculated on the basis of the zero-coupon yield curve built on the data of actually concluded and performed agreements of DGLBs using the Nelson-Siegel parametric model);

For bonds of other government institutions, Level 2 inputs (spot rates calculated on the basis of the zero-coupon yield curve built on the data of actually concluded and performed agreements of DGLBs using the Nelson-Siegel parametric model) and Level 3 inputs (risk premium on securities compared to DGLBs risk determined by using judgments at the level of 100 basis points which consider the availability of guarantees on behalf of the Government in respect of these securities).

As discount rates to determine the fair value of internal state debt in the national currency, the NBU used the average weighted discount rate of the NBU on all refinancing instruments.

As discount rates to determine the fair value of loans to banks and other borrowers, the NBU used the market rate (the NBU's discount rate) plus 1.5% as at the calculation date.

Assessment methods and key inputs for the valuation of foreign securities that are accounted for at fair value of Level 3

Future cash flows are estimated using observable market data as well as non-observable data. Non-observable data includes data on the yield of securities during their initial placement by the issuer and assumptions about the unchangeability of this yield until the maturity date of the respective securities, taking into account the short maturities.

34 Fair value of financial assets and liabilities (continued)

The discount rates used were as follows:

	2017	2016
	Discount rate, in % per annum	Discount rate, in % per annum
Debt securities in the national currency:		
Domestic government loan bonds	**7,21 – 16,21**	9,96 – 17,16
Bonds of other government institutions	**17,14**	18,00 – 18,29
Internal state debt in the national currency (1994–1996)	**15,92**	17,36
Loans to banks and other borrowers	**16,0**	15,5

The following table summarizes the carrying amounts and estimated fair values of those financial assets not presented in the NBU’s consolidated statement of financial position at their fair values:

(in UAH millions)

	2017		2016	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
Domestic debt securities in the national currency:				
Domestic government loan bonds	**370 967**	**364 253**	391 936	389 565
Bonds of other government institutions	**954**	**942**	2 013	1 932
Total domestic securities not carried at fair value	**371 921**	**365 195**	393 949	391 497
Internal state debt	**1 926**	**1 335**	2 002	1 303
Loans to banks and other borrowers	**32 417**	**32 451**	35 456	35 686

Taking into account that calculations of the estimated fair value are based on certain assumptions, it should be noted that the information provided above may not be fully reflective of the value that could be realized.

For financial instruments, the levels in the fair value hierarchy into which the fair values are categorized were as follows:

(in UAH millions)

	2017			2016		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets measured at fair value:						
Funds and deposits in foreign currencies (futures)	**6**	**–**	**–**	3	–	–
Foreign securities at fair value	**346 145**	**–**	**68 310**	275 208	–	121
Domestic debt securities at fair value:						
in the national currency						
Domestic government loan bonds	**–**	**101**	**–**	–	148	–
in foreign currencies						
Government derivatives	**675**	**–**	**–**	357	–	–
Assets for which fair value is disclosed:						
Domestic securities						
in the national currency:						
Domestic government loan bonds	**–**	**218 464**	**145 789**	–	389 565	–
Bonds of other government institutions	**–**	**–**	**942**	–	–	1 932
Internal state debt	**–**	**–**	**1 335**	–	–	1 303
Loans to banks and other borrowers	**–**	**–**	**32 451**	–	–	35 686

34 Fair value of financial assets and liabilities (continued)

In 2017, there were no significant transfers of financial instruments between Level 1 and Level 2 of fair value hierarchy. The NBU considers the transfers between the levels of the fair value hierarchy to have occurred at the end of the reporting period.

Long-term inflation government bonds the fair values of which are disclosed are included in Level 3 of the fair value hierarchy.

No changes in the structure or the carrying value of financial instruments that were included in Level 3 of the fair value hierarchy occurred during 2017 and 2016. Change of inputs to valuation models according to reasonably possible alternative assumptions would not have had a significant impact on the fair value of those instruments as at 31 December 2017 and 2016.

35 Presentation of financial instruments by measurement categories

In accordance with IFRS 9 "Financial Instruments", the NBU classifies its financial assets into the following categories: financial assets at fair value and financial assets measured at amortized cost.

All financial liabilities of the NBU are carried at amortized cost.

The following table analyzes financial assets by these measurement categories as at 31 December 2017:

	Assets measured at fair value	Assets measured at amortized cost	Total *(in UAH millions)*
Financial assets			
Funds and deposits in foreign currencies	6	23 794	**23 800**
Foreign securities	414 455	–	**414 455**
SDR holdings	–	60 860	**60 860**
Domestic securities	776	371 921	**372 697**
Loans to banks and other borrowers	–	32 417	**32 417**
Internal state debt	–	1 926	**1 926**
IMF quota contributions	–	80 415	**80 415**
Other financial assets	–	937	**937**
Total financial assets	**415 237**	**572 270**	**987 507**

The following table analyzes financial assets by these measurement categories as at 31 December 2016:

	Assets measured at fair value	Assets measured at amortized cost	Total *(in UAH millions)*
Financial assets			
Funds and deposits in foreign currencies	3	49 700	**49 703**
Foreign securities	275 329	–	**275 329**
SDR holdings	–	73 546	**73 546**
Domestic securities	505	393 949	**394 454**
Loans to banks and other borrowers	–	35 456	**35 456**
Internal state debt	–	2 002	**2 002**
IMF quota contributions	–	73 538	**73 538**
Other financial assets	–	617	**617**
Total financial assets	**275 837**	**628 808**	**904 645**

36 Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if the parties are under common control or one party has the ability to control the other party or can 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 paid to the substance of the relationship, not merely the legal form. Related parties of the NBU include the Government, state-controlled entities, key management personnel, etc.

In the normal course of business, the NBU enters into transactions with the related parties. Only material transactions with related parties are provided in this Note. The outstanding balances at the year-end are as follows:

		2017			2016		
	Notes	**Government and state-controlled entities**	**Associates**	**Other related parties**	Government and state-controlled entities	Associates	Other related parties
							(in UAH millions)
Domestic securities	8	**372 697**	**–**	**–**	394 454	–	–
Loans to banks and other borrowers		**22 212**	**–**	**–**	25 618	–	–
Loans to Household Deposit Guarantee Fund	9	**6 479**	**–**	**–**	9 062	–	–
Provision for loans to banks and other borrowers		**(4 509)**	**–**	**–**	(10 322)	–	–
Internal state debt		**1 926**	**–**	**–**	2 002	–	–
Other assets		**33**	**106**	**–**	22	89	–
Accounts of banks		**19 213**	**–**	**–**	19 532	–	–
Accounts of government and other institutions	14	**52 260**	**76**	**3**	45 837	358	2
Accounts of Household Deposit Guarantee Fund	14	**3 740**	**–**	**–**	2 310	–	–
Liability on profit distribution to the State Budget	19	**44 614**	**–**	**–**	44 379	–	–
Certificates of deposit issued by the NBU		**15 591**	**–**	**–**	8 032	–	–
Other liabilities		**9**	**–**	**–**	22	–	–

Other related parties include Corporate Non-State Pension Fund of the NBU.

The terms of balances presented in the table above were as follows:

Long-term loans to state-owned banks (included in the loans to banks and other borrowers in the table above) as at 31 December 2017 bore contractual interest rates from 7.00% to 16.5% (31 December 2016: from 7.00% to 29.25%); these loans were repayable in the period from 1 to 2 years according to initial repayment terms (31 December 2016: from 1 to 4 years);

Loans to Household Deposit Guarantee Fund as at 31 December 2017 and 2016 bore interest rate at 12.5 %;

Accounts of government and other institutions as at 31 December 2017 and 2016 were non-interest bearing;

Accounts of Household Deposit Guarantee Fund bore interest rates of 4.83% as at 31 December 2017 (31 December 2016: 6.62%);

Balances of obligatory reserves transferred by state-owned banks to the NBU's correspondent account (included in accounts of banks in the table above) do not earn interest (31 December 2016: no interest was accrued on balances of obligatory reserves transferred by state-owned banks to the NBU's correspondent account) (Note 13).

Terms of transactions with internal state debt and domestic securities are disclosed in the respective notes.

36 Related party transactions (continued)

Income and expense items from transactions with related parties were as follows:

	2017			2016		
	Government and state-controlled entities	**Associates**	**Other related parties**	Government and state-controlled entities	Associates	Other related parties
						(in UAH millions)
Interest income	**51 409**	**–**	**–**	53 251	–	–
Interest expense	**(1 503)**	**–**	**–**	(3 079)	–	–
Fee and commission income	**288**	**–**	**–**	187	–	–
Other income	**117**	**18**	**–**	139	23	–
Staff costs	–	**–**	**(31)**	–	–	(27)
Other expense	**(7)**	**–**	**–**	(1)	–	–
Net (decrease)/ increase in provisions	**(5 813)**	**–**	**–**	6 147	–	–

In accordance with the Law of Ukraine *On the National Bank of Ukraine*, services to the State Treasury of Ukraine are provided by the NBU free of charge.

In 2017, short-term benefits (salary) of key management personnel amounted to UAH 23.1 million, including remuneration to members of the NBU Council UAH 10.7 million (2016: short-term benefits (salary) of key management personnel amounted to UAH 12.7 million, including remuneration to members of the NBU Council UAH 1.9 million). As at 31 December 2017 and 2016, there were no outstanding balance of loans to key management personnel.

37 Subsequent events

In February-March 2018, liabilities to the IMF were repaid under the stand-by program for the amount of SDR 129 million (UAH 5 176 million at the official exchange rate at the payment date, or UAH 4 699 million at the annual exchange rate of the IMF).

In 2018, the NBU implemented into its accounting policies a new Procedure for Calculating a Net Open Currency Position and Determining Unrealized and Realized Results under Transactions in Foreign Currencies, Monetary Gold, and Precious Metals in the NBU. The National Bank assesses the impact of the change on the consolidated financial statements, including liabilities to the State Budget.

11 April 2018
City of Kyiv, Ukraine