KREDOBANK Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2015

CONTENTS

KPMG

JSC KPMG Audit
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Independent Auditors' Report

To the Board of Directors
Public Joint-Stock Company "Kredobank"

We have audited the accompanying consolidated financial statements of Public Joint-Stock Company "Kredobank" ("the Bank") and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows, for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No.320/1 dated 29 December 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

We draw attention to the fact that the corresponding figures presented, excluding the adjustments described in Note 3 to the consolidated financial statements, are based on the consolidated financial statements of the Bank as at and for the year ended 31 December 2014, which were audited by other auditors whose report dated 24 March 2015 expressed an unmodified opinion on those statements. As part of our audit of the consolidated financial statements of the Bank as at and for the year ended 31 December 2015, we have audited the adjustments described in Note 3 to the consolidated financial statements that were applied to restate the consolidated financial statements as at and for the year ended 31 December 2014. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements of the Bank as at and for the year ended 31 December 2014 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as at and for the year ended 31 December 2014 taken as a whole. Our opinion is not qualified in respect of this matter.

We also draw attention to Note 2 to the consolidated financial statements, which describes the political and social unrest and regional tensions in Ukraine that started in November 2013 and escalated in 2014 and afterwards. The events referred to in Note 2 adversely affected the Bank's results and financial position and may continue to affect them in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

JSC KPMG Audit

JSC "KPMG Audit"
Certificate No. 2397 of 26 January 2001
issued by the Audit Chamber of Ukraine
EDRPOU Code: 31032100
NBU Banking Auditor's Registration
Certificate No. 0000012 of 17 September
2012, Resolution No. 39

Parkhomenko Anna
Deputy Director

Certified Auditor
ACU Certificate: 0085 dated 29 October 2009
NBU Certificate: 0000044 dated 20 September 2007

9 March 2016

In thousands of hryvnias	Note	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	7	1,423,810	500,996
Securities at fair value through profit or loss	8	201,204	117,967
Due from banks	9	4,097	6,454
Loans and advances to customers	10	4,248,993	3,095,396
Investment securities available for sale	11	785,176	809,288
Investment securities held to maturity	12	1,049,724	859,398
Current income tax prepayment		18,878	38,186
Deferred income tax asset	28	32,218	45,232
Investment property	13	8,928	8,928
Intangible assets	14	59,893	48,484
Premises, leasehold improvements and equipment	14	456,699	424,736
Other financial assets	15	30,596	15,168
Other non-financial assets	16	62,066	43,218
Non-current assets held for sale		-	1,451
Total assets		**8,382,282**	**6,014,902**
Liabilities			
Due to banks	17	1,399,967	1,500,790
Customer accounts	18	5,646,866	3,611,697
Other financial liabilities	19	46,839	24,015
Other non-financial liabilities	20	66,467	32,180
Subordinated debt	21	516,946	586,886
Total liabilities		**7,677,085**	**5,755,568**
Equity			
Share capital	22	1,918,969	1,918,969
Non-registered share capital	21,22	330,000	-
Accumulated deficit		(1,688,821)	(1,798,550)
Revaluation reserve for premises		129,001	133,430
Revaluation reserve for investment securities available for sale		16,048	5,485
Total equity		**705,197**	**259,334**
Total liabilities and equity		**8,382,282**	**6,014,902**

Approved for issue and signed on behalf of the Management Board on 9 March 2016.

G. Szatkowski
Acting Chairman of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО КРЕДОБАНК
KredoBank
09807862
УКРАЇНА • м. ЛЬВІВ

Vasyl Lototsky
Chief Accountant

Responsible employee: I. Vitynska (T: 032 297 23 39)

In thousands of hryvnias	Note	2015	2014
Interest income	24	903,500	586,521
Interest expense	24	(342,453)	(271,852)
Net interest income		**561,047**	**314,669**
Provision for loan impairment	10	(260,514)	(317,195)
Net interest margin after provision for loan impairment		**300,533**	**(2,526)**
Fee and commission income	25	283,748	208,964
Fee and commission expense	25	(35,815)	(21,508)
Gains less losses from trading in foreign currencies		64,556	58,650
Revaluation of foreign currency position		(217,139)	(198,601)
Gains from securities at fair value through profit or loss		83,220	48,956
Gains from investment securities available for sale		1,490	3,772
Impairment of investment securities available for sale		388	(22,787)
Impairment of premises and equipment	14	-	(12,092)
Provision for other financial and non-financial assets		(6,478)	(5,214)
Provision for credit related commitments and other losses		(156)	(496)
Other operating income	26	13,558	18,552
Gain on initial recognition of the financial instrument	17	-	38,368
Administrative and other operating expenses	27	(543,143)	(430,622)
Loss before tax		**(55,238)**	**(316,584)**
Income tax (expense)/benefit	28	(30,344)	31,362
Loss for the year		**(85,582)**	**(285,222)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Investment securities available for sale:			
- Gains less losses arising during the year	23	10,563	22,496
- Income tax recorded directly in other comprehensive income	23, 28	-	(1,701)
Items that will not be reclassified to profit or loss:			
Revaluation of premises:			
- Income tax recorded directly in other comprehensive income	23, 28	12	(579)
Other comprehensive income for the year		**10,575**	**20,216**
Total comprehensive (loss)/income for the year		**(75,007)**	**(265,006)**
Basic and diluted loss per share attributable to shareholders of the Group, (UAH per share)	29	(0.0004)	(0.0015)

Approved for issue and signed on behalf of the Management Board on 9 March 2016.

G. Szatkowski
Acting Chairman of the Management Board

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V. Lototsky
Chief Accountant

Responsible employee: I. Vitynska (T: 032 297 23 39)

In thousands of hryvnias	Note	Share capital	Non-registered share capital	Revaluation reserve for investment securities available for sale	Revaluation reserve for premises	Accumulated deficit	Total equity
Balance as at 1 January 2014		**1,918,969**	**-**	**(15,310)**	**170,370**	**(1,592,678)**	**481,351**
Loss for the year		-	-	-	-	(285,222)	(285,222)
Other comprehensive income	23	-	-	20,795	(579)	-	20,216
Total comprehensive loss for 2014		-	-	20,795	(579)	(285,222)	(265,006)
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	-	(36,361)	36,361	-
Transactions with shareholder							
Non-repayable financial assistance received from the Group's parent company	32,36	-	-	-	-	52,426	52,426
Income tax on non-repayable financial assistance received from the Group's parent company		-	-	-	-	(9,437)	(9,437)
Transactions with shareholder, total		**-**	**-**	**-**	**-**	**42,989**	**42,989**
Balance as at 31 December 2014		**1,918,969**	**-**	**5,485**	**133,430**	**(1,798,550)**	**259,334**
Loss for the year		-	-	-	-	(85,582)	(85,582)
Other comprehensive income	23	-	-	10,563	12	-	10,575
Total comprehensive loss for 2015		-	-	10,563	12	(85,582)	(75,007)
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	-	(4,441)	4,441	-
Transactions with shareholder							
Transactions with the parent company	32,36	-	-	-	-	190,870	190,870
Non-registered share capital	21,22	-	330,000	-	-	-	330,000
Transactions with shareholder, total		**-**	**330,000**	**-**	**-**	**190,870**	**520,870**
Balance as at 31 December 2015		**1,918,969**	**330,000**	**16,048**	**129,001**	**(1,688,821)**	**705,197**

Approved for issue and signed on behalf of the Management Board on 9 March 2016.

G. Szatkowski
Acting Chairman of the Management Board

V. Lototsky
Chief Accountant

Responsible employee: I. Vitynska (T: 032 297 23 39

In thousands of hryvnias	Note	2015	2014
Cash flows from operating activities			
Interest received		834,998	478,415
Interest paid		(326,521)	(256,089)
Fees and commissions received		280,882	206,761
Fees and commissions paid		(35,815)	(21,508)
Income received from trading in foreign currencies		64,556	58,650
Other operating income received		11,655	7,037
Staff costs paid		(219,742)	(174,009)
Administrative and other operating expenses paid		(244,233)	(178,558)
Income tax paid		(8,078)	(89,718)
Cash flows from operating activities before changes in operating assets and liabilities		**357,702**	**30,981**
Net decrease in due from banks		4,165	5,699
Net decrease in mandatory reserves with the NBU		-	36,826
Net increase in loans and advances to customers		(826,708)	(431,990)
Net increase in other financial and non-financial assets		(27,111)	(12,529)
Net (decrease)/increase in due to banks		(444,795)	310,608
Net increase in customer accounts		1,151,325	249,706
Net increase in other financial and non-financial liabilities		13,425	11,339
Net cash from operating activities		**228,003**	**200,640**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(791,794)	(691,350)
Proceeds from disposal and redemption of investment securities available for sale		1,198,470	398,085
Acquisition of investment securities held to maturity		(597,865)	(15,261)
Proceeds from redemption of investment securities held to maturity		819,759	74,076
Acquisition of premises and equipment	14	(73,012)	(57,439)
Proceeds from disposal of premises and equipment		1,011	63,348
Acquisition of intangible assets	14	(28,471)	(8,006)
Net cash from/(used in) investing activities		**528,098**	**(236,547)**
Cash flows from financing activities			
Redemption of subordinated debt	21,36	(326,077)	-
Contributions paid to non-registered share capital	21,22	330,000	-
Proceeds from non-repayable financial assistance received from the Group's parent company	32,36	-	52,426
Net cash from financing activities		**3,923**	**52,426**
Effect of exchange rate fluctuations on cash and cash equivalents		**162,790**	**125,269**
Net increase in cash and cash equivalents		**922,814**	**141,788**
Cash and cash equivalents as at the beginning of the year		500,996	359,208
Cash and cash equivalents as at the end of the year	3, 7	**1,423,810**	**500,996**

Approved for issue and signed on behalf of the Management Board on 9 March 2016.

G. Szatkowski
Acting Chairman of the Management Board

V. Lototsky
Chief Accountant

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Responsible employee: I. Vitynska (T: 032 297 23 39)

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for Public Joint Stock Company “Kredobank” (the “Bank”) and its subsidiary - Finance Company "Idea Capital" Limited Liability Company (together the “Group”). As at 31 December 2015 and 31 December 2014 the Bank fully owns Finance Company "Idea Capital" Limited Liability Company.

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian laws. As at 31 December 2015 and 31 December 2014, the Bank’s immediate parent company was PKO Bank Polski S.A. (Poland). The Bank is a member of the PKO Bank Polski S.A. Group (“PKO BP S.A. Group”). The largest shareholder of the PKO BP S.A. Group is the State Treasury of Poland.

Principal activity. The Group’s principal business activity includes commercial banking operations, corporate and retail banking operations within Ukraine. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank, the Bank was re-registered by the National Bank of Ukraine (the “NBU”) on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company “KREDOBANK” in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint Stock Companies.

The Bank operates under Licence # 43 issued by the NBU on 11 October 2011 and General License # 43 issued on 11 October 2011, that provide the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licences for custodial services issued on 10 October 2013 and licences for securities operations issued on 7 November 2012. The Bank participates in the State deposit insurance scheme (registration # 051 dated 19 October 2012), which operates according to the Law of Ukraine “On Deposit Guarantee Fund” dated 23 February 2012 (as amended). The Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (2014: UAH 200 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2015, the Bank has 110 outlets (2014: 110 outlets) within Ukraine.

The key strategic purpose of JSC «KREDOBANK» is to conduct profitable activities. The mission of JSC «KREDOBANK» is to be a reliable financial partner for the clients and an attractive employer for the employees. Due to its specialization and concentration of resources, the Bank seeks to achieve and maintain long-term business stability, providing efficiency of its shareholders’ investments.

Finance Company "Idea Capital" Limited Liability Company is a financial institution that acquires the right of claim on liabilities under loan agreements and collects the claimed debts for profit-making purposes.

Registered address and place of business. The Bank’s registered address and place of business is:

78 Saharova Str.
79026 Lviv
Ukraine.

Presentation currency. These financial statements are presented in hryvnias ("UAH"), unless otherwise stated.

2 Operating environment of the Group

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest in early 2014, in March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued as at the date of these financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert 75% of foreign currency proceeds to national currency, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3 Significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement, management considered the Group's financial position, current intentions, continuing financial support from the parent company, budgeted profitability of future operations and access to financial resources, and analysed the impact of the current financial and economic situation on future operations of the Group.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

3 Significant Accounting Policies (Continued)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Group and placing orders to sell the position in a single transaction might affect the quoted price.

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

3 Significant Accounting Policies (Continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recognised at fair value. All other financial instruments are initially recognised at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

3 Significant Accounting Policies (Continued)

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired, or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets, or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU, deposit certificates and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective

Securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed by the Group and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel; or (c) the financial asset includes the embedded derivative that considerably changes contractual cash flows that would have been initially envisaged by the contract without embedded derivative.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from securities at fair value through profit or loss in the period in which they arise.

3. Significant Accounting Policies (Continued)

Due from banks. Due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year 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 amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The key factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is an objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- changes to contract with borrower in respect of extension of maturity, changes in payment schedule, payment schemes and other changes to initial contractual terms that would not be made if no worsening of the borrower's solvency.

For the purposes of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

3 Significant Accounting Policies (Continued)

If the terms of a credit agreement on an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows after revision of the credit agreement terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Credit related commitments. The Group enters into credit related commitments, including commitments to extend loans, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

3 Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year.

Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as due from banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Investment securities held to maturity. This classification includes non-derivative financial assets quoted at active market with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment security is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification as at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

3 Significant Accounting Policies (Continued)

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The fair value of the Group's investment property is determined based on reports of the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

In 2012 the Group changed its accounting policy in respect of measurement of the value of own buildings included in group “Premises and leasehold improvements” after recognition. Starting from 2012, land and buildings are recorded under the revaluation model. At the date of revaluation accumulated depreciation of buildings was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Buildings held by the Group are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for land and buildings included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains or losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

3 Significant Accounting Policies (Continued)

Depreciation. Land and construction in progress are not depreciated. Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Premises	70
Furniture and fixtures	5-15
Motor vehicles	7
Computers and equipment	5-15
Leasehold improvements	over the term of the underlying lease

Intangible assets. The Group's intangible assets have the definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years (2014: 10 years).

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to banks. Due to banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Group's default, would be secondary to the Group's primary debt obligations. Subordinated debt is carried at amortized cost.

3 Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including currency swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract. If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the entire hybrid contract is designated as at fair value through profit or loss.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3 Significant Accounting Policies (continued)

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on impaired financial assets is recognised at the carrying value using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss of the financial asset.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Group's functional and presentation currency is the national currency of Ukraine, hryvnias.

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

3 Significant Accounting Policies (continued)

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2015, UAH	**31 December 2014, UAH**
1 US dollar (USD)	24.0007	15.7686
1 Euro (EUR)	26.2231	19.2329
1 Russian Rouble (RUR)	0.3293	0.3030

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Staff costs and related contributions. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to management being the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately in these financial statements based on the ultimate domicile of the counterparty. The ultimate domicile and the actual place of business of the counterparties generally coincide.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

3 Significant Accounting Policies (continued)

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period.

	31 December 2015			31 December 2014		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In thousands of hryvnias	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
Assets						
Cash and cash equivalents	1,423,810	-	1,423,810	500,996	-	500,996
Securities at fair value through profit or loss	201,204	-	201,204	2,988	114,979	117,967
Due from banks	4,097	-	4,097	6,454	-	6,454
Loans and advances to customers	2,153,365	2,095,628	4,248,993	1,538,416	1,556,980	3,095,396
Investment securities available for sale	636,018	149,158	785,176	560,057	249,231	809,288
Investment securities held to maturity	1,049,724	-	1,049,724	580,987	278,411	859,398
Current income tax prepayment	-	18,878	18,878	-	38,186	38,186
Deferred income tax asset	-	32,218	32,218	-	45,232	45,232
Investment property	-	8,928	8,928	-	8,928	8,928
Intangible assets	-	59,893	59,893	-	48,484	48,484
Premises, leasehold improvements and equipment	-	456,699	456,699	-	424,736	424,736
Other financial assets	30,596	-	30,596	14,879	289	15,168
Other assets	62,066	-	62,066	40,713	2,505	43,218
Non-current assets held for sale	-	-	-	1,451	-	1,451
Total assets	**5,560,880**	**2,821,402**	**8,382,282**	**3,246,941**	**2,767,961**	**6,014,902**
Liabilities						
Due to banks	1,157,739	242,228	1,399,967	687,556	813,234	1,500,790
Customer accounts	5,586,990	59,876	5,646,866	3,547,883	63,814	3,611,697
Other financial liabilities	46,833	6	46,839	23,714	301	24,015
Other non-financial liabilities	66,467	-	66,467	32,164	16	32,180
Subordinated debt	-	516,946	516,946	737	586,149	586,886
Total liabilities	**6,858,029**	**819,056**	**7,677,085**	**4,292,054**	**1,463,514**	**5,755,568**

Changes in accounting estimates and correction of errors. In 2014, management revised useful lives of its intangible assets to 10 years. Management believes that the revised useful lives provide a more accurate estimate of the expected period of time for the Group to use its computer software. The effect of the change in the accounting estimates was to increase amortisation charge of computer software for 2014 by UAH 9,918 thousand.

During the year ended 31 December 2015, management changed its approach to recognition of interest income for certain portion of impaired loans and advances to customers. Previously the Group did not accrue interest on such loans because their contractual maturity had expired or the Group filed lawsuits against the borrowers. Such approach to interest accruals for the portion of impaired loans and advances to customers did not meet the requirements of IAS 39. In accordance with IAS 39, interest income on impaired financial assets is recognised at the carrying value using the effective interest rate applied to discount the future cash flows for the purpose of measuring the impairment loss of the financial asset.

3 Significant Accounting Policies (continued)

The adjustments to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 are summarised as follows:

In thousands of hryvnias	As initially reported	Adjustment	As restated
Interest income	545,469	41,052	586,521
Interest expense	(271,852)	-	(271,852)
Net interest income	**273,617**	41,052	**314,669**
Provision for loan impairment	(276,143)	(41,052)	(317,195)
Net interest margin after provision for loan impairment	**(2,526)**	**-**	**(2,526)**

During the year ended 31 December 2015, management changed the approach to classification of deposit certificates issued by the National Bank of Ukraine and made reclassification adjustments to cash flows from disposal and redemption of investment securities available for sale. Previously the Group classified the deposit certificates as investment securities held to maturity. As the deposit certificates are not quoted in the active market, they cannot be classified as investment securities held to maturity in accordance with IAS 39. Based on its cash management policy, the Group reclassified the deposit certificates to cash and cash equivalents, taking into account their short-time nature and the Group's intentions as to holding such certificates. The effect of the reclassification of the deposit certificates from investment securities held to maturity to cash and cash equivalents on the Group's consolidated statement of cash flows for 2014 is summarised below:

In thousands of hryvnias	As initially reported	Adjustment	As restated
Proceeds from disposal and redemption of investment securities available for sale	933,753	(535,668)	398,085
Acquisition of investment securities held to maturity	(4,630,261)	4,615,000	(15,261)
Proceeds from disposal and redemption of investment securities held to maturity	4,183,408	(4,109,332)	74,076
Net cash flows used in investing activities	(206,547)	(30,000)	(236,547)
Net increase/(decrease) in cash and cash equivalents for 2014	171,788	(30,000)	141,788
Cash and cash equivalents as at the beginning of the year	329,208	30,000	359,208

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is 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 payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling 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 actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 1,032 thousand (31 December 2014: UAH 968 thousand) higher or UAH 209 thousand (31 December 2014: UAH 272 thousand) lower.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses by UAH 38,638 thousand or a decrease in loan impairment losses by UAH 53,392 thousand (2014: an increase by UAH 36,408 thousand or a decrease by UAH 42,839 thousand), respectively.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Valuation of own use premises. As stated in Note 3, buildings held by the Group are subject to revaluation on a regular basis. The valuation was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The valuation was based on a comparative sales method. When performing the valuation, certain judgements and estimates were applied in determining the comparable premises to be used in a sales comparison approach. As the difference between the carrying value and market value of the buildings was insignificant as at 31 December 2015, no revaluation was conducted. Change in such assumptions may have an impact on fair value of assets. If real estate prices increased/decreased by 10%, market value of premises would have increased/decreased by UAH 26,263 thousand.

5 Adoption of New or Revised Standards and Interpretations

During 2015, there were neither significant amendments to the standards, nor any new standards or interpretations that would have a significant impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016, which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

6 New Accounting Pronouncements (continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure Initiative - Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

The following other new standards and interpretations are not expected to have any impact on the Group when adopted:

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

7 Cash and Cash Equivalents

In thousands of hryvnias	**2015**	**2014**
Cash on hand	242,494	177,306
Cash balances on the correspondent account with the NBU	106,576	164,401
Correspondent accounts with other banks	377,860	139,262
Deposit certificates of the NBU	696,880	-
Placements with other banks with original maturities of less than three months	-	20,027
Total cash and cash equivalents	**1,423,810**	**500,996**

As at 31 December 2015, mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (2014: simple average over a monthly period) and is required to be maintained at the level of 3 to 6.5 per cent (2014: 3 to 6.5 per cent) of certain obligations of the Bank in a hryvnia equivalent. As such, the balance can vary from day to day. The estimated mandatory reserve balance with the NBU as at 31 December 2015 is UAH 300,952 thousand (2014: UAH 174,868 thousand). The opening mandatory reserve balance on the correspondent account with the National Bank of Ukraine on the banking day should be no less than 40% of the estimated mandatory reserve balance for the respective period. The Bank may satisfy its mandatory reserve requirement with 75% of the Ukrainian hryvnia balances of cash on hand in the Bank's head office, outlets and ATMs, as well as 100% of the balance on the correspondent account with JSC "Settlement Centre" (2014: Treasury bills nominated in US dollars in the amount of 10% of their nominal value and a deposit placed on a separate account with the NBU).

During 2014, the requirement to deposit on separate account with the NBU the amount of 40% of mandatory reserve balance for the preceding month excluding the amount covered by the Treasury bills nominated in US dollars was cancelled. No similar requirements were imposed in 2015 and, therefore, the Bank may use the above amount to finance its day-to-day operations without having it deposited on a separate account.

As at 31 December 2015, the Group's cash and cash equivalents for the purposes of the statement of cash flows amounted to UAH 1,423,810 thousand (as at 31 December 2014: UAH 500,996 thousand).

As at 31 December 2015 and 2014, the Bank was in compliance with the mandatory reserve requirements.

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

7 Cash and Cash Equivalents (continued)

As at 31 December 2015, the credit quality of cash and cash equivalents based on Moody's ratings is summarised as follows:

In thousands of hryvnias	Balance with the NBU	Correspondent accounts with other banks	Deposit certificates of the National Bank of Ukraine	Total
Neither past due nor impaired				
- NBU	106,576	-	696,880	803,456
- Aaa – Aa3 rated	-	142,180	-	142,180
- A1 - A3 rated	-	122,731	-	122,731
- Baa1 - Baa3 rated	-	80,970	-	80,970
- Ba1 - Ba3 rated	-	26,953	-	26,953
- Lower than Caa1 rated	-	1,353	-	1,353
- Unrated	-	3,673	-	3,673
Total neither past due nor impaired	**106,576**	**377,860**	**696,880**	**377,860**
Impaired				
- Unrated	-	894	-	894
Total impaired	**-**	**894**	**-**	894
Less provision for impairment	**-**	**(894)**	**-**	(894)
Total cash and cash equivalents, excluding cash on hand	**106,576**	**377,860**	**696,880**	**1,181,316**

As at 31 December 2014, the credit quality of cash and cash equivalents based on Moody's ratings is summarised as follows:

In thousands of hryvnias	Balance with the NBU	Correspondent accounts with other banks	other banks with original maturities of less than three months	Total
Neither past due nor impaired				
- NBU	164,401	-	-	164,401
- Aaa – Aa3 rated	-	62,262	-	62,262
- A1 - A3 rated	-	36,987	-	36,987
- Baa1 - Baa3 rated	-	13,801	-	13,801
- Ba1 - Ba3 rated	-	16,696	-	16,696
- B1 – B3 rated	-	781	-	781
- Lower than Caa1 rated	-	1,515	-	1,515
- Unrated	-	7,220	20,027	27,247
Total cash and cash equivalents, excluding cash on hand	**164,401**	**139,262**	**20,027**	**323,690**

8 Securities at Fair Value through Profit or Loss

In thousands of hryvnias	2015	2014
Ukrainian government bonds	201,204	117,967
Total debt securities	201,204	117,967
Total securities at fair value through profit or loss	**201,204**	**117,967**

Debt securities, designated into this category are represented by indexed bonds issued by the Ukrainian government. These bonds are redeemed at their index value, but no less than their nominal value. The nominal value of these bonds is indexed as at the redemption date depending on changes in weighted average UAH/USD exchange rate on interbank market for the calendar month preceding the issue date and the redemption date. This feature represents an embedded derivative which was not separated from the host contract and the financial instrument as a whole is accounted for at fair value through profit or loss.

The Group irrevocably designates the above securities, which are not part of its trading book, as at fair value through profit or loss.

Debt securities as at 31 December 2015 were repaid in full in January 2016.

As at 31 December 2015, Ukraine's sovereign credit rating assigned by Standard & Poor's was B- (31 December 2014: CCC-).

The interest rate analysis of debt securities designated at fair value through profit or loss is presented in Note 31.

9 Due from Banks

As at 31 December 2015, guarantee deposits include UAH 4,097 thousand (31 December 2014: UAH 6,454 thousand) due from Ukrainian banks and one Russian bank placed mostly as guarantee deposits for card settlements and transfers. Such placements are normally non-interest bearing.

Amounts due from banks are not collateralised. The credit quality of due from banks outstanding as at 31 December 2015 may be summarised based on Moody's ratings as follows:

In thousands of hryvnias	Guarantee deposits	Total
Neither past due nor impaired		
- unrated	4,097	4,097
Total due from banks	**4,097**	**4,097**

The credit quality of due from banks outstanding as at 31 December 2014 is as follows:

In thousands of hryvnias	Guarantee deposits	Total
Neither past due nor impaired		
- Ca rated	6,368	6,368
- unrated	86	86
Total due from banks	**6,454**	**6,454**

Refer to Note 34 for the estimated fair value of each class of amounts due from banks. Interest rate analysis of due from banks is disclosed in Note 31.

10 Loans and Advances to Customers

In thousands of hryvnias	**2015**	**2014**
Corporate loans	3,224,843	2,308,854
Loans to individuals - car and consumer loans	1,170,505	828,466
Loans to individuals - mortgage loans	630,444	519,261
Reverse sale and repurchase agreements	-	35,079
Less: provision for loan impairment	(776,799)	(596,264)
Total loans and advances to customers	**4,248,993**	**3,095,396**

As at 31 December 2015 the total gross amount of car loans is UAH 1,046,437 thousand (as at 31 December 2014: UAH 735,612 thousand).

During 2015, the Group derecognised outstanding loans as a result of forgiveness and sale to unrelated parties of a loan portfolio with the gross amount before provision for impairment of UAH 114,692 thousand (2014: UAH 4,623 thousand) and the carrying value of UAH 44,315 thousand (2014: UAH 1,449 thousand). As a result of these transactions, the Group recognised net income of UAH 2,946 thousand (2014: net loss of UAH 1,366 thousand).

Movements in the provision for loan impairment during 2015 are as follows:

In thousands of hryvnias	**Corporate loans**	**Car and consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment as at 1 January 2015	**336,681**	**106,915**	**152,668**	**596,264**
Provision for loan impairment during the year	171,368	58,905	33,946	264,219
Loans and advances to customers sold and forgiven during the year	(60,734)	(1,402)	(7,916)	(70,052)
Loans and advances to customers written off during the year as uncollectible	(40)	(94)	-	(134)
Interests accrued on impaired loans	(32,390)	(2,902)	(6,431)	(41,723)
Foreign currency translation differences	18,050	2,807	7,368	28,225
Provision for loan impairment as at 31 December 2015	**432,935**	**164,229**	**179,635**	**776,799**

The provision for loan impairment for 2015 differs from the amount recognised in profit or loss for the year due to recovery of loans in the total amount of UAH 3,705 thousand that were written off as uncollectible in prior periods. This amount was recognised directly as the release of the provision in profit or loss for the year.

Movements in the provision for loan impairment during 2014 are as follows:

In thousands of hryvnias	**Corporate loans**	**Car and consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment as at 1 January 2014	**228,123**	**33,200**	**70,490**	**331,813**
Provision for loan impairment during the year	167,918	87,466	71,046	326,430
Loans and advances to customers sold and forgiven during the year	(2,839)	(762)	(939)	(4,540)
Loans and advances to customers written off during the year as uncollectible	(39,685)	(15,632)	(6,421)	(61,738)
Interests accrued on impaired loans	(33,314)	(1,505)	(6,233)	(41,052)
Foreign currency translation differences	16,478	4,148	24,725	45,351
Provision for loan impairment as at 31 December 2014	**336,681**	**106,915**	**152,668**	**596,264**

10 Loans and Advances to Customers (continued)

The provision for loan impairment for the year ended 31 December 2014 differs from the amount recognised in profit or loss for the year due to recovery of loans in the total amount of UAH 9,235 thousand written off during 2014 as uncollectible. This amount was directly recorded as the release of the provision in profit or loss for the year.

The amount of movement in the provision shown in the table above in respect of loans sold during the year includes the amount of the provision reversed and loss incurred as a result of the sale.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2015		**2014**	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	1,800,949	36	1,347,727	36
Agriculture and food processing	983,243	20	554,365	15
Trade	871,592	18	507,130	14
Manufacturing	860,767	17	705,386	19
Other services	215,841	4	132,951	4
Health resorts	110,504	2	110,580	3
Real estate and construction	87,630	2	101,983	3
Transportation	45,935	1	51,809	1
Mining	20,172	-	22,383	1
Financial services	6,134	-	49,187	1
Hotels	2,221	-	1,119	-
Sports and recreation services	315	-	101,910	3
Other	20,489	-	5,130	-
Total loans and advances to customers (gross)	**5,025,792**	**100**	**3,691,660**	**100**

At 31 December 2015, the total gross exposure of top 10 borrowers of the Group was UAH 912,879 thousand (31 December 2014: UAH 750,606 thousand), or 18% of the gross loan portfolio (31 December 2014: 20% of the gross loan portfolio).

As at 31 December 2015, loans and advances to customers in the amount of UAH 72,623 thousand (31 December 2014: UAH 70,498 thousand) were secured by deposits in the amount of UAH 132,346 thousand (31 December 2014: UAH 111,772 thousand). See Note 18.

As at 31 December 2014, guarantee deposits from PKO BP S.A. amounted to UAH 185,123 thousand, while the loans and advances to customers secured by these deposits amounted to UAH 162,110 thousand.

As at 31 December 2015, there were no guarantee deposits from PKO BP S.A. pledged to secure loans and advances to customers

10 Loans and Advances to Customers (continued)

Information on collateral as at 31 December 2015 is summarised below:

In thousands of hryvnias	Corporate loans	Car and consumer loans	Mortgage loans	Total
Unsecured loans	365,189	231,022	186,155	782,366
Loans secured by:				
- cash deposits	72,130	493	-	72,623
- residential real estate	58,570	1,199	386,526	446,295
- other real estate	1,643,946	-	50,224	1,694,170
- other assets	1,085,008	937,791	7,539	2,030,338
Total loans and advances to customers (gross)	**3,224,843**	**1,170,505**	**630,444**	**5,025,792**

Information on collateral as at 31 December 2014 is summarised below:

In thousands of hryvnias	Corporate loans	Car and consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Unsecured loans	219,954	143,133	88,307	**-**	**451,394**
Loans secured by:					
- cash deposits	228,425	4,183	-	-	232,608
- residential real estate	46,991	188	343,715	-	390,894
- other real estate	1,237,052	25	83,411	-	1,320,488
- other assets	576,432	680,937	3,828	35,079	1,296,276
Total loans and advances to customers (gross)	**2,308,854**	**828,466**	**519,261**	**35,079**	**3,691,660**

As at 31 December 2014, cash deposits in the table above include deposits pledged as collateral for certain lending transactions by PKO BP S.A., the Group's parent company. There were no such transactions in 2015.

Other assets mainly include equipment, other movable property and property rights for future real estate. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of the loans was allocated based on liquidity of the collateralised assets.

10 Loans and Advances to Customers (continued)

Credit quality analysis of the loans outstanding as at 31 December 2015 is presented below:

In thousands of hryvnias	**Corporate loans**	**Car and consumer loans**	**Mortgage loans**	**Total**
Neither past due nor impaired				
- High grade	1,462,656	639,002	129,686	2,231,344
- Standard grade	875,696	334,449	169,617	1,379,762
- Sub-standard grade	16,749	9,119	7,577	33,445
Total neither past due nor impaired	**2,355,101**	**982,570**	**306,880**	**3,644,551**
Past due but not impaired				
- less than 30 days overdue	31,759	3,244	381	35,384
- 30 to 90 days overdue	4,262	14,080	9,856	28,198
- 91 to 180 days overdue	3,331	65	11,394	14,790
- 181 to 360 days overdue	1,555	555	8,330	10,440
- over 360 days overdue	2,253	194	15,307	17,754
Total past due, but not impaired	**43,160**	**18,138**	**45,268**	**106,566**
Loans individually determined to be impaired (gross)				
- not yet past due	359,431	8,234	54,984	422,649
- less than 30 days overdue	39,612	-	-	39,612
- 30 to 90 days overdue	1,337	499	15,101	16,937
- 91 to 180 days overdue	10,157	10,796	2,973	23,926
- 181 to 360 days overdue	30,983	30,756	32,007	93,746
- over 360 days overdue	385,062	119,512	173,231	677,805
Total individually and collectively impaired loans (gross)	**826,582**	**169,797**	**278,296**	**1,274,675**
Less provision for impairment	**(432,935)**	**(164,229)**	**(179,635)**	**(776,799)**
Total loans and advances to customers	**2,791,908**	**1,006,276**	**450,809**	**4,248,993**

The Group classifies loans and advances to customers by credit quality based on the Borrower's financial condition and ability to service the debt. Neither past due nor impaired loans are split by the Group into the following credit risk categories:

High grade. This category includes exposures with low credit risk which is characterised by strong financial position of the borrower and good loan servicing.

Standard grade. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good repayment history or borrowers with strong financial position and payment history with delays not exceeding 90 days.

Sub-standard loans. This category includes exposures with significant credit risk which is characterised by weak or unsatisfactory financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing.

10 Loans and Advances to Customers (continued)

Credit quality analysis of the loans outstanding as at 31 December 2014 is presented below:

In thousands of hryvnias	Corporate loans	Car and consumer loans	Mortgage loans	Reverse sale and repur-chase agree-ments	Total
Neither past due nor impaired					
- High grade	756,177	451,826	92,978	35,079	1,336,060
- Standard grade	569,298	224,265	153,152	-	946,715
- Sub-standard grade	28,820	2,031	8,462	-	39,313
Total neither past due nor impaired	**1,354,295**	**678,122**	**254,592**	**35,079**	**2,322,088**
Past due but not impaired					
- less than 30 days overdue	52,682	4,252	-	-	56,934
- 30 to 90 days overdue	37,475	29,204	15,362	-	82,041
- 91 to 180 days overdue	2,201	655	3,467	-	6,323
- 181 to 360 days overdue	6,797	30	882	-	7,709
- over 360 days overdue	37,353	23	3,141	-	40,517
Total past due, but not impaired	**136,508**	**34,164**	**22,852**	**-**	**193,524**
Loans individually determined to be impaired (gross)					
- not yet past due	291,039	329	38,355	-	329,723
- less than 30 days overdue	38,203	-	-	-	38,203
- 30 to 90 days overdue	25,340	33	6,298	-	31,671
- 91 to 180 days overdue	24,763	33,189	16,810	-	74,762
- 181 to 360 days overdue	45,613	52,549	47,228	-	145,390
- over 360 days overdue	393,093	30,080	133,126	-	556,299
Total individually and collectively impaired loans (gross)	**818,051**	**116,180**	**241,817**	**-**	**1,176,048**
Less provision for impairment	**(336,681)**	**(106,915)**	**(152,668)**	**-**	**(596,264)**
Total loans and advances to customers	**1,972,173**	**721,551**	**366,593**	**35,079**	**3,095,396**

The Group applied the portfolio provisioning methodology prescribed by IAS 39 *Financial Instruments: Recognition and Measurement*, and created provisions for impairment losses on individually impaired loans and collectively impaired loans that, based on past events for loans with similar characteristics, were incurred, but could not yet be specifically identified with any individual loan by the reporting date. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements exceed their carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements equal to their carrying value or those assets where collateral and other credit enhancements are lower than their carrying value ("under-collateralised assets"). The analysis below covers only the individually impaired loans.

10 Loans and Advances to Customers (continued)

The effect of collateral on individually impaired loans as at 31 December 2015 is summarised below:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	136,964	287,735	411,701	328,061
Mortgage loans	57,321	105,135	86,017	77,865
Car and consumer loans	1,955	4,088	537	527
Total	**196,240**	**396,958**	**498,255**	**406,452**

The effect of collateral on individually impaired loans as at 31 December 2014 is summarised below:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	207,628	301,014	428,072	375,113
Mortgage loans	37,235	52,889	66,218	55,718
Car and consumer loans	610	727	2,385	2,229
Reverse sale and repurchase agreements	35,079	35,079	-	-
Total	**280,552**	**389,709**	**496,675**	**433,060**

For remaining commercial loans without specifically identified impairment, the fair value of collateral was estimated at the inception of the loans and is adjusted for subsequent changes in value on the ongoing basis in line with the significant market changes in value or once a year for real estate, or once a year for other pledged assets in accordance with the Group's policies and procedures. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment as these loans are not individually impaired.

The fair value of collateral is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, discounted for the time required for its recovery and disposal. This amount includes possible costs of debt recovery through the foreclosure such as court expenses, disposal costs and other costs related to debt recovery through the foreclosure.

The fair value of real estate properties at the end of the reporting period is based on the actual expert opinion of the firm of independent appraisers engaged by the Group on a contractual basis or by the internal appraiser who holds a relevant qualification certificate, which are not related (affiliates, related parties, associates) to the Group according to the legislation.

The Group's credit risk management policies and procedures are described in Note 31. The maximum credit risk exposure represents the carrying value of loans and advances at the relevant reporting date.

Collateral and other ways to improve the quality of loans and advances are described below.

10 Loans and Advances to Customers (continued)

The Group accepts the following types of collateral:

Loans to individuals – residential mortgage property and vehicles;

Loans to legal entities and industrial companies – corporate properties such as premises, shares, accounts receivable and third party guarantees;

Commercial real estate development – real property for which the financing has been received.

Although collateral might be an important factor to mitigate the credit risk, the Group's policy provides for granting loans primarily based on the customer's creditworthiness rather than the proposed collateral value. Depending on the customer's condition and banking product, loans may be issued without taking collateral.

The Group's assets located in the Autonomous Republic of Crimea and the territories out of control of the Ukrainian authorities (i.e. part of Donetsk and Lugansk regions) include loans and advances to customers:

In Donetsk and Lugansk regions	**31 December 2015**	**31 December 2014**
- loan indebtedness	99,750	109,324
- loan loss provision	(90,313)	(70,447)
- loans after impairment	9,437	38,877
In AR Crimea		
- loan indebtedness	75,277	76,699
- loan loss provision	(74,320)	(74,806)
- loans after impairment	957	1,893

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

11 Investment securities available for sale

In thousands of hryvnias	**2015**	**2014**
Ukrainian government bonds	785,146	737,909
Corporate bonds	-	71,349
Total debt securities	785,146	809,258
Corporate shares	30	30
Total investment securities available for sale	**785,176**	**809,288**

As at 31 December 2015, sovereign credit rating of Ukraine assigned by Standard & Poor's is B- (31 December 2014: CCC-).

Analysis by credit quality of debt securities outstanding at 31 December 2015 is as follows:

In thousands of hryvnias	**Ukrainian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired			
- Ukrainian government	785,146	-	785,146
Total neither past due nor impaired	785,146	-	785,146
Impaired			
- Unrated	-	23,261	23,261
Total impaired	**-**	**23,261**	**23,261**
Less: impairment provisions	**-**	**(23,261)**	**(23,261)**
Total debt securities available for sale	**785,146**	**-**	**785,146**

Analysis by credit quality of debt securities outstanding at 31 December 2014 is as follows:

In thousands of hryvnias	**Ukrainian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired			
- Ukrainian government	737,909	-	737,909
- Caa2 rated	-	39,718	39,718
- Unrated	-	29,702	29,702
Total neither past due nor impaired	737,909	69,420	807,329
Impaired			
- Unrated	-	24,716	24,716
Total impaired	**-**	**24,716**	**24,716**
Less: impairment provisions	**-**	**(22,787)**	**(22,787)**
Total debt securities available for sale	**737,909**	**71,349**	**809,258**

The above analysis by credit quality is based on ratings assigned by Moody's or Fitch ratings converted to the nearest equivalent on the Moody's rating scale.

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. As a result, the Group presents above an ageing analysis of debt securities that are individually determined to be impaired. The debt securities are not collateralised.

Movements in provision for impairment of investment securities available for sale for 2015 differs from the amount presented in profit or loss for the year due to repayment of debts written off as bad indebtedness totalling UAH 862 thousand in previous reporting periods. This amount was recorded in profit and loss statement as decrease of expenses for provision for the reporting year.

Interest rate analysis of investment securities available for sale is disclosed in Note 31.

12 Investment securities held to maturity

In thousands of hryvnias	**2015**	**2014**
Ukrainian government bonds	1,049,724	859,398
Total investment securities held to maturity	**1,049,724**	**859,398**

As at 31 December 2015, sovereign credit rating of Ukraine assigned by Standard & Poor's is B- (31 December 2014: CCC-).

Refer to Note 34 for the disclosure of the fair value of investment securities. Interest rate analysis of investment securities is disclosed in Note 31.

13 Investment property

In thousands of hryvnias	**Note**	**2015**	**2014**
Investment property at fair value as at 1 January		**8,928**	**15,536**
Transfer to assets held for sale		-	(2,429)
Disposals		-	(4,179)
Investment property at fair value as at 31 December		**8,928**	**8,928**

As at 31 December 2015 and 31 December 2014, investment properties include commercial premises held by the Group to earn rental income, which were transferred from premises and leasehold improvements during 2013.

Information on income from operating lease is disclosed in Note 26.

As at 31 December 2015 and 31 December 2014, fair value of the Group's investment properties was determined based on the reports of internal appraiser who holds the relevant professional qualification and has recent experience in valuation of property of the similar category and location. Valuation is based on market value of assets.

Premises were not reassessed, as the difference between the carrying value and market value of premises was not essential as at 31 December 2015 and 31 December 2014.

14 Premises, Leasehold improvements, Equipment and Intangible assets

In thousands of hryvnias	Note	Premises and leasehold improvements	Computers and equipment	Furniture and fixtures	Motor vehicles	Construction-in-progress	Total premises, leasehold improvements and equipment	Computer software licences	Total
Cost as at 1 January 2014		358,128	187,235	81,121	16,046	23,319	665,849	111,243	**777,092**
Accumulated depreciation and amortisation		(28,665)	(116,649)	(50,477)	(9,497)	-	(205,288)	(39,967)	**(245,255)**
Net book value as at 1 January 2014		**329,463**	**70,586**	**30,644**	**6,549**	**23,319**	**460,561**	**71,276**	**531,837**
Additions		3,156	30,535	15,456	4,237	4,055	57,439	8,006	65,445
Transfers to investment property		5,242	1,342	2,050	936	(11,232)	(1,662)	1,662	-
Disposals		(44,514)	(687)	(1,702)	(9)	-	(46,912)	-	(46,912)
Depreciation and amortisation charge	27	(8,253)	(15,252)	(7,083)	(2,010)	-	(32,598)	(14,076)	(46,674)
Impairment and write-off		-	-	-	-	(12,092)	(12,092)	(18,384)	(30,476)
Net book value as at 31 December 2014		**285,094**	**86,524**	**39,365**	**9,703**	**4,050**	**424,736**	**48,484**	**473,220**
Cost as at 31 December 2014		312,374	212,371	87,500	18,791	4,050	635,086	99,572	734,658
Accumulated depreciation and amortisation		(27,280)	(125,847)	(48,135)	(9,088)	-	(210,350)	(51,088)	(261,438)
Net book value as at 31 December 2014		**285,094**	**86,524**	**39,365**	**9,703**	**4,050**	**424,736**	**48,484**	**473,220**
Additions		8,411	33,112	19,343	5,331	6,815	73,012	28,471	101,483
Transfers to investment property		(1,453)	1,835	801	906	(3,069)	(980)	980	-
Disposals		(496)	(117)	(727)	(123)	-	(1,463)	-	(1,463)
Depreciation and amortisation charge	27	(7,030)	(20,212)	(7,936)	(2,447)	-	(37,625)	(18,034)	(55,659)
Impairment and write-off		-	-	-	-	(981)	(981)	(8)	(989)
Net book value as at 31 December 2015		**284,526**	**101,142**	**50,846**	**13,370**	**6,815**	**456,699**	**59,893**	**516,592**
Cost at 31 December 2015		318,824	238,194	102,964	22,880	6,815	689,677	128,855	818,532
Accumulated depreciation and amortisation		(34,298)	(137,052)	(52,118)	(9,510)	-	(232,978)	(68,962)	(301,940)
Net book value as at 31 December 2015		**284,526**	**101,142**	**50,846**	**13,370**	**6,815**	**456,699**	**59,893**	**516,592**

14 Premises, Leasehold improvements, Equipment and Intangible assets (continued)

As at 31 December 2015, the cost of fully depreciated equipment that is still in use is UAH 64,736 thousand (31 December 2014: UAH 63,581 thousand), and the cost of fully amortised intangible assets that are still in use is UAH 15,484 thousand (31 December 2014: UAH 9,891 thousand). In 2014 management revised useful lives of the Group's intangible assets and adjusted them to 10 years.

In 2014, the Group sold its own premises in the Crimea for cash consideration of UAH 21,125 thousand (VAT inclusive). Moreover, in 2014 the Group recognized impairment of construction in progress assets in Donetsk and Lugansk (totalling UAH 12,092 thousand).

As at 31 December 2015 and 31 December 2014, the Group has no premises and equipment of which ownership, use and disposal are limited by laws of Ukraine. The Group also has neither pledged property, equipment and intangible assets, nor property and equipment disposed from use for their further sale. However, there are some limitations in the title to software licenses used by the Group.

The Group's premises are measured at market value as at 31 December 2015. These premises are evaluated based on the analogous comparison method, the reports of internal appraiser who holds the relevant professional qualification and has recent experience in valuation of properties of the similar category and location. The premises are valued based on market value of assets. Premises were not reassessed, as the difference between carrying value and market value of the premises was not essential as at 31 December 2015.

If the assets were recognized at cost less depreciation, the carrying value of the premises and leasehold improvements would amount to UAH154,801 thousand as at 31 December 2015 (31 December 2014: UAH 154,137 thousand).

15 Other financial assets

In thousands of hryvnias	**2015**	**2014**
Receivables from operations with customers and banks	20,485	12,363
Accrued income receivable	13,446	10,579
Receivables from operations with plastic cards	5,465	308
Provision for impairment	(8,800)	(8,082)
Total other financial assets	**30,596**	**15,168**

Movements in the provision for impairment of other financial assets during 2015 are as follows:

In thousands of hryvnias	**Accrued income receivable**	**Receivables from operations with customers and banks**	**Total**
Provision for impairment as at 1 January 2015	**5,082**	**3,000**	**8,082**
Provision for impairment during the year	4,386	-	4,386
Amounts written off during the year as uncollectible	(668)	(3,000)	(3,668)
Provision for impairment as at 31 December 2015	**8,800**	**-**	**8,800**

15 Other financial assets (continued)

Movements in the provision for impairment of other financial assets during 2014 are as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Total
Provision for impairment as at 1 January 2014	**2,762**	**6,524**	**9,286**
Provision for impairment during the year	3,693	(3,524)	**169**
Amounts written off during the year as uncollectible	(1,373)	-	**(1,373)**
Provision for impairment as at 31 December 2014	**5,082**	**3,000**	**8,082**

Analysis by credit quality of other financial assets at 31 December 2015 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Total
Neither past due nor impaired	4,931	20,485	5,465	**30,881**
Total neither past due nor impaired	**4,931**	**20,485**	**5,465**	**30,881**
Receivables individually determined to be impaired:				
- less than 30 days overdue	511	-	-	511
- 31 to 90 days overdue	931	-	-	931
- 91 to 180 days overdue	1,296	-	-	1,296
- 181 to 360 days overdue	2,632	-	-	2,632
- over 360 days overdue	3,145	-	-	3,145
Total individually impaired (gross)	8,515	-	-	8,515
Less impairment provision	**(8,800)**	**-**	**-**	**(8,800)**
Total other financial assets	**4,646**	**20,485**	**5,465**	**30,596**

Analysis by credit quality of other financial assets as at 31 December 2014 is as follows:

Less provision for impairment	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Total
Neither past due nor impaired	5,732	9,363	308	**15,403**
Total neither past due nor impaired	**5,732**	**9,363**	**308**	**15,403**
Receivables individually determined to be impaired:				
- less than 30 days overdue	532	-	-	532
- 31 to 90 days overdue	742	-	-	742
- 91 to 180 days overdue	920	-	-	920
- 181 to 360 days overdue	441	-	-	441
- over 360 days overdue	2,212	3,000	-	5,212
Total individually impaired (gross)	4,847	3,000	-	7,847
Less impairment provision	**(5,082)**	**(3,000)**	**-**	**(8,082)**
Total other financial assets	**5,497**	**9,363**	**308**	**15,168**

15 Other financial assets (continued)

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables generally are not collateralised.

Information on related party balances is disclosed in Note 36.

16 Other non-financial assets

In thousands of hryvnias	2015	2014
Prepaid expenses	29,231	13,241
Prepayments for goods and construction in progress	15,237	8,676
Repossessed collateral	6,380	14,432
Inventory	5,897	2,984
Prepayment for services	5,876	4,210
Prepaid taxes other than income tax	5,413	4,664
Receivables from settlements with employees and other	1,976	1,462
Provision for impairment of other non-financial assets	(7,944)	(6,451)
Total other non-financial assets	**62,066**	**43,218**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future.

17 Due to banks

In thousands of hryvnias	2015	2014
Correspondent accounts and overnight placements of other banks	221,705	474,242
Term deposits and loans from other banks	1,178,262	1,026,548
Total due to banks	**1,399,967**	**1,500,790**

In March and July 2014, the Group's subsidiary received a loan from PKO BP SA in the amount of USD 21,319 thousand (UAH 242,556 thousand at the exchange rate at the data of issue) at interest rate of 6-month USD LIBOR + 3% p.a. maturing in 3 years. The Group recognised a gain of UAH 38,368 thousand on initial recognition of the loan. Interest expenses for the year ended 31 December 2015 include amortisation of gain from initial recognition of the loan at fair value in the amount of UAH 17,570 thousand (2014 – UAH 10,836 thousand).

In March 2015, PKO BP S.A. and the Group's subsidiary concluded the agreement on forgiveness of the borrowing that the Group received from PKO BP S.A. in March 2014. The total debt forgiveness amounted to USD 8,493 thousand and the relevant amount of non-amortized discount from initial recognition of the loan is USD 904 thousand. These amounts are recorded directly in equity in UAH equivalent at the NBU exchange rate as at the date of forgiveness and amount to UAH 199,110 thousand and UAH 21,181 thousand, respectively.

As at 31 December 2015, term deposits and loans include UAH 1,178,262 thousand (31 December 2014: UAH 1,008,101 thousand) received from PKO BP S.A. and correspondent accounts and overnight deposits of other banks include UAH 141,647 thousand (31 December 2014: UAH 448,964 thousand) of balances on accounts of PKO BP S.A.

As at 31 December 2014, term deposits and loans include loans in the amount of UAH 18,444 thousand received from the EBRD for financing loan facilities to customers. As at 31 December 2015, the EBRD loan was fully repaid.

Refer to Note 34 for the disclosure of the fair value of each class of amounts due to banks. Interest rate analysis of due to banks is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

18 Customer accounts

In thousands of hryvnias	2015	2014
Legal entities		
- Current/settlement accounts	1,986,369	1,311,254
- Term deposits	947,438	350,264
Individuals		
- Current/demand accounts	721,963	411,390
- Term deposits	1,991,096	1,538,789
Total customer accounts	**5,646,866**	**3,611,697**

Economic sector concentrations within customer accounts are as follows:

	2015		2014	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	2,713,059	48	1,950,179	54
Manufacturing	892,488	16	392,318	11
Trade	509,930	9	308,513	9
Financial services	298,417	5	246,652	7
Other services	462,913	8	234,507	6
Real estate	184,276	3	77,566	2
Transport and communication	101,867	2	48,352	1
Agriculture	132,403	3	37,049	1
Other	351,513	6	316,561	9
Total customer accounts	**5,646,866**	**100**	**3,611,697**	**100**

As at 31 December 2015, the Group had 45 customers (31 December 2014: 30 customers) with balances above UAH 10,000 thousand. The aggregate balance on accounts of these customers was UAH 1,163,168 thousand (31 December 2014: UAH 583,793 thousand), or 21% (31 December 2014: 16%) of total customer accounts.

As at 31 December 2015, included in customer accounts are deposits of UAH 3,488 thousand (31 December 2014: UAH 3,415 thousand) held as collateral for guarantees issued. Refer to Note 33.

As at 31 December 2015, included in current accounts of individuals are prepayments at loan agreements totalling UAH 37,875 thousand that are not due.

As at 31 December 2015, included in customer accounts are deposits totalling UAH 132,346 thousand (31 December 2014: UAH 111,772 thousand) held as collateral for loans granted to customers totalling UAH 72,623 thousand (31 December 2014: UAH 70,498 thousand). Refer to Note 10.

Refer to Note 34 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

19 Other Financial Liabilities

Other financial liabilities are presented as follows:

In thousands of hryvnias	Note	2015	2014
Settlements		20,681	11,455
Other accrued liabilities		14,185	10,572
Resources of the Deposit Guarantee Fund for payment of compensations on deposits with other banks		11,833	-
Provision for credit related commitments	33	97	996
Other		43	992
Total other financial liabilities		**46,839**	**24,015**

Provision for credit related commitments represents specific provisions for losses on financial guarantees and letters of credit provided to customers whose financial conditions deteriorated.

Refer to Note 34 for disclosure of fair value of each class of other financial liabilities.

20 Other Non-Financial Liabilities

Other non-financial liabilities are presented as follows:

In thousands of hryvnias	2015	2014
Accrued employee benefit costs	30,825	15,136
Deferred income	22,451	2,179
Taxes payable, other than income tax	6,715	11,226
Amounts payable to Deposit Guarantee Fund	4,329	2,964
Other	2,147	675
Total other non-financial liabilities	**66,467**	**32,180**

21 Subordinated Debt

In thousands of hryvnias	Effective interest rate 2015	Carrying value 2015	Carrying value 2014
USD 20,000, floating rate, due in 2017	1.26%	516,946	335,203
USD 15,000, floating rate, due in 2018		-	251,683
Total subordinated debt		**516,946**	**586,886**

During 2009, the Group received from PKO BP S.A. a subordinated debt in the amount of USD 20,000 thousand (UAH 159,806 thousand at the exchange rate as at the date of receipt) at interest rate of 1-month LIBOR+6.5% p.a. The agreement was registered by the National Bank of Ukraine on 9 November 2009. Under the contract the debt matures on 6 November 2017.

During 2010, the Group received from PKO BP S.A. a subordinated debt in the amount of USD 15,000 thousand (UAH 120,140 thousand at the exchange rate as at the date of receipt) at interest rate of 1-month LIBOR+6.5% p.a. The agreement was registered by the National Bank of Ukraine on 9 February 2010. Under the contract the debt matures on 5 February 2018.

On 18 May 2010, the interest rate on both loans was changed to 1 – month LIBOR + 3.75% p.a. This represented a substantial change in terms of the original financial liability and was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The Group believes that the revised terms of the subordinated debt are consistent with the market rates, therefore, no gain or loss on initial recognition of the new liability was recognized.

On 8 August 2012, the interest rate on both loans was changed to 1.07% p.a. (USD LIBOR for 12 - month interbank deposits as at 1 July 2012). This rate will be applied until the Bank becomes profitable and other contractual terms are fulfilled. During this period, interest payment is suspended. During 2015, the Group estimated future cash flows arising on this instrument taking into account business plan assumptions and expectations on profitability renewal in 2016 (2014: starting from 2016). Amendments to the agreement did not result in derecognition of previous financial instrument prior to change in the contractual terms, since the difference between present value of future cash flows discounted at the original effective interest rate and book value of borrowings as at the date of amendments to the agreement was not material. The result from restructuring is recognised by the Group over the remaining term of the financial liability using the revised effective interest rate.

In September 2015, the Bank, based on the guarantee letter issued by its Parent company, PKO BP S.A., obtained a permission from the NBU to early repay the subordinated debt of USD 15,000 thousand received from PKO BP S.A. in 2010 provided that the Parent company will contribute this amount for Bank's share capital increase purposes. The amount of UAH 330,000 thousand was received by the Bank and accounted for as the unregistered share capital contribution. In November 2015, the agreement on Bank's share purchase amounting to UAH 330,000 thousand was concluded between the Bank and PKO BP S.A.

Transactions with the shareholder include unamortized premium amounting to UAH 12,941 thousand which was derecognized at the time of premature repayment of subordinated debt which was initially originated from the revised effective interest rate under amended terms of the contract.

The subordinated debt ranks after all other creditors in case of liquidation.

Refer to Note 34 for the subordinated debt fair value. Interest rate analysis of the subordinated debt is disclosed in Note 31. Information on related party transactions is disclosed in Note 36.

22 Share capital

In thousands of hryvnias, except for the number of shares	**Number of Issued and registered shares**	**Nominal value**	**Total**
At 1 January 2014	191,896,946,916	1,918,969	1,918,969
At 31 December 2014	191,896,946,916	1,918,969	1,918,969
At 31 December 2015	191,896,946,916	1,918,969	1,918,969

The share capital of the Bank amounts to UAH 1,918,969 thousand (2014: UAH 1,918,969 thousand).

As at 31 December 2015, the total number of issued shares, at which the reports on placement results were registered comprised 191,896,946,916 (31 December 2014: 191,896,946,916) ordinary shares with nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights.

As at 31 December 2014, all ordinary shares issued were fully paid in and registered.

As disclosed in Note 21, during 2015, PKO BP SA purchased 33,000,000,000 of the Bank's shares with the total value of UAH 330,000 thousand and paid nominal value of the shares of UAH 0.01 per share. As at 31 December 2015 the relevant amendments to the charter on increase of share capital have not been made.

The Group's shareholder structure is presented below:

Shareholder	**2015**	**2014**
PKO BP S.A.	99.57%	99.57%
Other (resident and non-resident shareholders)	0.43%	0.43%
Total	**100.00%**	**100.00%**

The Bank's management holds 12,700 ordinary registered shares with total nominal value of UAH 127 that represent 0.000007% of the Bank's share capital.

23 Other Comprehensive Income Recognised in Equity

Analysis of other comprehensive income by equity component item is as follows:

In thousands of hryvnias	**Note**	**Revaluation reserve for securities available for sale**	**Revaluation reserve for premises**	**Total**
Year ended 31 December 2014				
Investment securities available-for-sale:				
- Gains less losses for the year		22,496	-	22,496
Income tax recorded directly in other comprehensive income	28	(1,701)	(579)	(2,280)
Total other comprehensive income		**20,795**	**(579)**	**20,216**
Year ended 31 December 2015				
Investment securities available-for-sale:				
- Gains less losses for the year		10,563	-	10,563
Income tax recorded directly in other comprehensive income		-	12	12
Total other comprehensive income		**10,563**	**12**	**10,575**

24 Interest Income and Expense

In thousands of hryvnias	**2015**	**2014**
Interest income		
Loans and advances to legal entities	399,259	283,851
Loans and advances to individuals	232,522	159,093
Investment securities available for sale	103,300	76,681
Investment securities held to maturity	96,640	53,271
Deposit certificates issued by the NBU	48,748	3,693
Due from banks	16,673	3,572
Securities at fair value through profit or loss	6,358	6,360
Total interest income	**903,500**	**586,521**
Interest expense		
Deposits from individuals	194,880	172,523
Deposits from legal entities	79,186	51,140
Due to banks	58,559	35,572
Subordinated debt	9,752	11,076
Amounts due to the National Bank of Ukraine	76	1,541
Total interest expense	**342,453**	**271,852**
Net interest income	**561,047**	**314,669**

Interest income on impaired financial assets amounts to UAH 84,710 thousand for 2015 (2014: UAH 102,059 thousand).

Information on interest income and expense on transactions with related parties is disclosed in Note 36.

25 Fee and Commission Income and Expense

In thousands of hryvnias	2015	2014
Fee and commission income		
Cash and settlement transactions	210,647	144,505
Purchase and sale of foreign currency	48,755	25,019
Agency fee from insurance companies	18,931	36,282
Guarantees issued and other trade finance transactions	2,595	1,907
Other	2,820	1,251
Total fee and commission income	**283,748**	**208,964**
Fee and commission expense		
Cash and settlement transactions	34,192	19,131
Guarantees received and other trade finance transactions	784	422
Transactions with securities	486	275
Other	353	1,680
Total fee and commission expense	**35,815**	**21,508**
Net fee and commission income	**247,933**	**187,456**

Information on fee and commission income and expense on transactions with related parties is disclosed in Note 36.

26 Other Operating Income

In thousands of hryvnias	2015	2014
Balances with expired statute of limitations	3,963	64
Operating lease	2,311	2,637
Transactions on construction financing	1,776	995
Support of operations from partner companies	1,512	1,028
Proceedings from sale of property and equipment	1,464	11,515
Reimbursement of legal expenses	699	242
Income from insurance operations	506	157
Partial forgiveness of debt under the loan from other bank	-	930
Other	1,327	984
Total other operating income	**13,558**	**18,552**

27 Administrative and Other Operating Expenses

In thousands of hryvnias	Note	2015	2014
Staff costs		235,582	178,451
Repair and maintenance of premises and equipment and software maintenance		59,843	51,509
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	14	55,659	46,674
Property operating lease expense		49,432	35,422
Utilities		25,923	22,312
Communication		23,095	15,150
Professional services		14,107	15,914
Contributions to Individuals' Deposit Guarantee Fund		14,706	12,037
Security services		9,603	8,454
Advertising and marketing		8,288	5,797
Taxes, other than income tax		6,575	7,994
Business trips		3,992	2,580
Charity		530	575
Other		35,808	27,753
Total administrative and other operating expenses		**543,143**	**430,622**

Staff costs include the unified social tax in the amount of UAH 53,461 thousand (2014: UAH 42,929 thousand). Contribution to the state pension fund comprises 90% of the unified social tax amounting to UAH 48,115 thousand (2014: UAH 38,636 thousand). No discretionary pensions or other post-employment benefits are provided by the Group.

28 Income Tax

(a) Components of income tax expense

Components of income tax expense are presented as follows:

In thousands of hryvnias	**2015**	**2014**
Current tax	17,319	8,441
Tax on financial assistance recognised in equity	-	(9,437)
Deferred tax	13,025	(30,366)
Income tax expense / (benefit) for the year	**30,344**	**(31,362)**

(b) Reconciliation of tax expense and profit or loss multiplied by applicable tax rate

The Group's applicable income tax rate is 18% tax rate (2014: 18%). Reconciliation of expected and actual income tax expense is presented as follows:

In thousands of hryvnias	**2015**	**2014**
Loss before tax	**(55,238)**	**(316,584)**
Expected income tax benefit at applicable tax rate (2015: 18%; 2014: 18%)	(9,943)	(56,985)
Tax effect of non-deductible items and non-taxable items:		
- Income not recognised for tax purposes	(6,306)	-
- Income recognised for tax purposes only	34,682	3,703
- Debt forgiveness expenses and charges to provisions not recognized for tax purposes	7,148	6,354
- Other non-deductible expenses	8,903	7,881
Unrecognized deferred tax asset of the Group's subsidiary	-	13,002
- Tax loss of the Group's subsidiary carried forward	(8,413)	-
Effect of other changes in tax legislation	4,273	(5,317)
Income tax expense / (benefit) for the year	**30,344**	**(31,362)**

28 Income Taxes (Continued)

(c) Deferred taxes by type of temporary differences

Differences between IFRS and statutory tax regulations in Ukraine give rise to temporary differences between carrying amounts of assets and liabilities used for financial reporting purposes and their tax bases. Tax effect of movements in these temporary differences is presented as follows:

In thousands of hryvnias	**31 December 2014**	**Recognized in profit or loss for the year**	**Recognized in other comprehensive income for the year**	**31 December 2015**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	13,703	1,600	12	15,314
Provision for loan impairment	19,375	(4,893)	-	14,482
Unamortised discounts/premiums	3,756	(3,756)	-	-
Estimation of fair valuation of securities	3,757	(1,335)	-	2,422
Accrued expenses and other liabilities	2,688	(2,688)	-	-
Interest accrued on carrying value of loans	2,214	(2,214)	-	-
Tax losses carried forward	16,481	(8,413)	-	8,068
Unrecognised tax asset	(13,002)	9,221	-	(3,781)
Interest accrued on loans to a non-resident borrower	1,040	(1,040)	-	-
Unamortised income from initial recognition of financial instruments	(4,956)	669	-	(4,287)
Other	176	(176)	-	-
Net deferred tax asset	**45,232**	**(13,025)**	**12**	**32,218**
Recognised deferred tax asset	63,190	-	-	40,286
Recognised deferred tax liability	(17,958)	-	-	(8,068)
Net deferred tax asset	**45,232**	**(13,025)**	**12**	**32,218**

28 Income Taxes (Continued)

In thousands of hryvnias	**31 December 2013**	**Recognized in profit or loss for the year**	**Recognized in other comprehensive income for the year**	**31 December 2014**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	12,306	1,976	(579)	13,703
Provision for loan impairment	(2,978)	22,353	-	19,375
Unamortised discounts/premiums	1,145	2,611	-	3,756
Estimation of fair valuation of securities	1,829	3,629	(1,701)	3,757
Accrued expenses and other liabilities	3,886	(1,198)	-	2,688
Interest accrued on carrying value of loans	-	2,214	-	2,214
Tax losses carried forward	-	16,481	-	16,481
Unrecognised tax asset	-	(13,002)	-	(13,002)
Interest accrued on loans to a non-resident borrower	-	1,040	-	1,040
Unamortised income from initial recognition of financial instruments	-	(4,956)	-	(4,956)
Other	958	(782)	-	176
Net deferred tax asset	**17,146**	30,366	(2,280)	**45,232**
Recognised deferred tax asset	20,124	-	-	63,190
Recognised deferred tax liability	(2,978)	-	-	(17,958)
Net deferred tax asset	**17,146**	**30,366**	**(2,280)**	**45,232**

Deferred income tax asset recognition. Recognised deferred tax asset represents income tax that can be recognised against future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. Future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management's expectations that are considered reasonable under existing circumstances. Taking into account planned future profits and the fact that current Ukrainian tax legislation does not impose any limits on the term of utilisation of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

29 Basic and Diluted Loss per Share

The Bank prepared its consolidated financial statements and separate financial statements as at and for the year ended 31 December 2015 in accordance with IFRS 10 "Consolidated financial statements" and IAS 27 "Separate financial statements". Basic loss per share is calculated and disclosed based on the IFRS consolidated financial statements. During the reporting period, the Group had no dilutive financial instruments. Therefore, basic loss per share is equal to diluted loss per share.

Loss per share is calculated as follows:

In thousands of hryvnias	**2015**	**2014**
Loss for the year attributable to ordinary shareholders	(85,582)	(285,222)
Loss for the year	(85,582)	(285,222)
Weighted average number of ordinary shares (thousands)	200,938,042	191,896,946
Basic and diluted loss per share attributable to Group shareholders based on the consolidated statement (in UAH per share)	**(0.0004)**	**(0.0015)**

30 Segment Analysis

Operating segments are components engaged in business operations that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is a person or a group of persons who allocate resources and measure the Group's performance. The CODM functions are performed by Management Board.

(a) Reportable segments

The Group has the following three reportable segments:

- Retail banking – banking services to individuals including current and saving accounts, deposits, investments, credit and debit cards, consumer loans and mortgages, foreign currency transactions.
- Corporate banking – direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities, and foreign currency transactions.
- Treasury and investment banking – financial instruments trading, capital market transactions, operations with foreign currencies and banknotes.

(b) Factors used to identify reportable segments

The Group's segments represent strategic business units that focus on different customers. They are managed separately since each business unit requires different marketing strategies and service levels.

(c) Measurement of operating segment profit or loss, assets and liabilities

Management Board reviews financial information prepared in accordance with the NBU requirements. During 2014, this financial information differed in certain aspects from International Financial Reporting Standards (see paragraph ***(e)***), in particular, loan provisions were recognised in accordance with the NBU requirements rather than using the 'incurred loss model' required by IAS 39. During 2015, there was no such difference, since the Bank met the NBU requirements in respect of compliance with IFRS.

The following approaches are applied to segment analysis :

(i) resources are reallocated among segments using internal interest rates set by Treasury Department. These internal interest rates are determined by reference to market interest rate benchmarks, contractual maturities of loans, and historical information on actual repayment of customer account balances;

(ii) income tax, gain/loss from foreign currency translation, and certain other items are not allocated to segments.

For operating decision purposes, segment performance is measured based on profit before tax.

Reports include information on intersegment transfer (internal) results of reportable segments. Transfer result is calculated as the difference between transfer revenue and transfer expense per each segment based on transfer prices set by major currency and maturity. For corporate and retail segments, transfer revenue is calculated as estimated revenue from sales of attracted resources to Treasury and Investment Banking segment at acquisition transfer prices; transfer expenses are calculated as estimated expenses on purchase of resources from Treasury and Investment Banking segment at transfer prices on placements.

Transfer prices and transfer revenue /expenses are calculated in accordance with "Methodology for determining and applying transfer prices within KREDOBANK" approved by Resolution of Management Board No. 515 dated 28 May 2008).

30 Segment analysis (continued)

(d) Reportable segment profit or loss, assets and liabilities

Reportable segments for the year ended 31 December 2015 are presented as follows:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated items	Total
Assets	1,461,995	2,816,874	3,464,651	638,762	**8,382,282**
Liabilities	2,714,084	2,955,334	1,917,107	90,560	**7,677,085**
Capital expenditures				8,562	**8,562**

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated items	Eliminations	Total
2015						
External revenues						
- Interest income	232,465	399,316	271,719	-	-	903,500
- Fee and commission income	120,834	158,896	4,018	-	-	283,748
- Other operating income	2,833	2,397	-	8,328	-	13,558
Revenues from other segments						
- Interest income	247,407	152,350	553,821	-	(953,578)	-
Total revenues	**603,539**	**712,959**	**829,558**	**8,328**	**(953,578)**	**1,200,806**
Interest expense	(433,310)	(420,538)	(442,183)	-	953,578	(342,453)
Provision for loan impairment	(90,573)	(169,941)	-	-	-	(260,514)
Impairment of investment securities available for sale	-	-	388	-	-	388
Provision for credit related commitments and other losses	14	860	-	(1,030)	-	(156)
Fee and commission expense	(23,334)	(6,968)	(5,513)	-	-	(35,815)
Gain from revaluation of securities at fair value through profit or loss	-	-	83,220	-	-	83,220
Gains less losses from trading in foreign currencies	46,655	-	(5,507)	23,408	-	64,556
Revaluation of foreign currency position	-	-	-	(217,139)	-	(217,139)
Gains less losses from transactions with securities available for sale	-	-	1,490	-	-	1,490
Administrative and operating expenses and provisions for other assets	(318,365)	(197,363)	(33,893)	-	-	(549,621)
Segment result	**(215,374)**	**(80,991)**	**427,560**	**(186,433)**	**-**	**(55,238)**

Reportable segments for the year ended 31 December 2014 are presented as follows:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated items	Total
Assets	1,162,939	2,080,800	2,377,183	611,284	**6,232,206**
Liabilities	1,980,723	1,659,956	2,095,224	134,927	**5,870,830**
Capital expenditures	**-**	**-**	**-**	15,897	**15,897**

30 Segment analysis (continued)

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated items**	**Eliminations**	**Total**
2014						
External revenues						
- Interest income	154,687	239,101	154,043	-	-	**547,831**
- Fee and commission income	81,793	95,877	4,046	-	-	**181,716**
- Other operating income	36,827	9,497	-	64,091	-	**110,415**
Revenues from other segments						
- Interest income	215,894	93,404	356,959	-	(666,257)	-
Total revenues	**489,201**	**437,879**	**515,048**	**64,091**	**(666,257)**	**839,962**
Interest expense	(336,069)	(249,547)	(336,918)	-	666,257	**(256,277)**
Provision for loan impairment	(94,677)	53,721	(1,034)	-	-	**(41,990)**
Impairment of investment securities available for sale	-	-	(1,203)	-	-	**(1,203)**
Provision for credit related commitments and other losses	335	1,011	-	-	-	**1,346**
Fee and commission expense	(12,752)	(4,096)	(4,252)	-	-	**(21,100)**
Gain from revaluation of securities at fair value through profit or loss	-	-	47,335	-	-	**47,335**
Gains less losses from trading in foreign currencies	43,544	-	-	14,454	-	**57,998**
Foreign currency translation differences	-	-	-	(177,222)	-	**(177,222)**
Gains less losses from transactions with securities available for sale	-	-	2,409	-	-	**2,409**
Administrative and operating expenses and provisions for other assets	(267,317)	(261,909)	(40,813)	-	-	**(570,039)**
Segment result	**(177,735)**	**(22,941)**	**180,572**	**(98,677)**	**-**	**(118,781)**

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In thousands of hryvnias	**2015**	**2014**
Total revenues for reportable segments	**2,146,056**	**1,442,128**
Recognition of non-repayable financial assistance from Parent Company directly in equity	-	(52,426)
Interest income restated in accordance with IFRS	-	36,677
Difference on accounting for transactions with securities	-	(10,215)
Due to banks recognised at fair value	-	38,368
Unallocated items	8,328	64,091
Eliminations	(953,578)	(666,257)
Other	-	39
Total revenues	**1,200,806**	**852,405**

Total revenues comprise interest income, fee and commission income, and other operating income.

30 Segment analysis (continued)

Adjustments applied during 2014 are presented as follows:

(i) for segment analysis purposes, the Group uses provisions for asset impairment recognized in accordance with the NBU requirements; in addition, for IFRS reporting purposes, interest is accrued on carrying amounts of loans;
(ii) financial assistance from Group's Parent Company is recognized directly in equity for IFRS reporting purposes;
(iii) for IFRS reporting purposes, income and expense are reclassified based on their substance, in particular, agent fee from insurance companies is recognized as fee and commission income; loans sold and forgiven are recognized within provisions for impairment; certain fee and commission income from loans is reclassified as interest income;
(iv) for IFRS reporting purposes, subordinated debt is recorded at effective interest rate. Due to banks originated at rates below market are recognized at fair value.

In thousands of hryvnias	**2015**	**2014**
Total reportable segment result	**131,195**	**(20,104)**
Recognition of non-repayable financial assistance from Parent Company directly in equity	-	(52,426)
Restatement of provision for loan impairment	-	(171,429)
Recognition of subordinated debt at amortised cost	-	(14,506)
Interest income restated in accordance with IFRS	-	36,751
Fair value adjustment of other assets	-	(21,914)
Recognition of due to banks at fair value	-	38,368
Amortisation of premium from recognition of debt at fair value	-	(9,264)
Other	-	(3,383)
Unallocated items	(186,433)	(98,677)
Loss before tax	**(55,238)**	**(316,584)**

In thousands of hryvnias	**2015**	**2014**
Reportable segment assets	**7,743,520**	**5,620,922**
Adjustment of deferred tax and current tax	-	15,216
Adjustment of cash balances	-	(21,933)
Restatement of provision for loans	-	(119,855)
Offsettings and reclassifications	-	(54,030)
Fair value adjustment of other assets	-	(13,482)
Adjustment of property and equipment	-	(2,355)
Other	-	(20,865)
Unallocated items	638,762	611,284
Total assets	**8,382,282**	**6,014,902**

In thousands of hryvnias	**2015**	**2014**
Reportable segment liabilities	**7,586,525**	**5,735,903**
Adjustment of balances on customer accounts	-	(43,189)
Offsettings	-	(54,030)
Adjustment of current tax and deferred tax	-	(11,458)
Adjustment of subordinated debt	-	20,866
Other	-	(27,451)
Unallocated items	90,560	134,927
Total liabilities	**7,677,085**	**5,755,568**

30 Segment analysis (continued)

As at 31 December 2014 adjustments applied are presented as follows:

(i) for segment analysis purposes, the Group uses provisions for asset impairment recognized in accordance with the NBU requirements;

(ii) certain deferred tax assets are not recognized for segment analysis purposes;

(iii) adjustment was applied to recording of fixed assets for IFRS reporting purposes;

(iv) other assets and other liabilities are off-set for IFRS reporting purposes;

(v) for IFRS reporting purposes, actual cash balances and customer account balances are recognized as at the reporting date.

(f) Analysis of revenues by product and service

Analysis of Group’s revenues by product and service is disclosed in Note 24 (interest income) and Note 25 (fee and commission income).

(g) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Group has no significant revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Refer to Note 31 for geographical analysis of Group's assets and liabilities.

(h) Major customers

The Group has no customers representing more than 10% of total revenue of the Group.

31 Financial Risk Management

Risk management relates to financial risks, operational risks, and legal risks. Financial risks comprises market risk (including currency risk, interest rate risk, and other price risk), credit risk, and liquidity risk. The purpose of financial risk management is to establish risk limits and ensure adherence to such limits. The operational and legal risk management is intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group is exposed to credit risk, which is the risk that a party to a financial instrument fails to meet its contractual obligations resulting in a financial loss to the other party. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For guarantees and credit related commitments, the maximum exposure to credit risk is the total amount of commitments (see Note 33). Credit risk is managed by making strategic decisions on acceptable credit risk, approving credit limits, updating principles and processes for credit risk assessment, implementing and improvement of risk assessment tools that allow maintaining risk within acceptable parameters, developing information tools that computerize credit risk assessment process and ensure quality and integrity of data used in the process, planning of operations and preparing recommendations, obtaining collateral, and by other tools intended to mitigate credit risk as described in Note 10.

The Group structures its exposures to credit risk by establishing limits per borrower or group of borrowers. Management approves credit risk limits on a regular basis. Such risks are regularly monitored and reviewed at least on a yearly basis.

The Group established corporate bodies responsible for approving credit limits per individual borrowers:

- Supervisory Board reviews and approves credit applications above USD 5.0 million and, in case of loan restructuring, above USD 6.25 million;
- Management Board reviews and approves credit applications up to USD 5.0 million and, in case of loan restructuring, up to USD 6.25 million;
- Credit Committee reviews and approves credit applications up to UAH 30 million, Select Credit Committee and Select Restructuring Committee – up to UAH 5 million, and Credit Restructuring Committee – up to UAH 50 million. Credit Committee and Select Credit Committee generally meet two times per week. Credit Restructuring Committee and Select Restructuring Committee generally meet once a week;
- Deputies of the Chairman of Management Board and directors of the Head Office departments have individual powers to approve new credit decisions with the limits below UAH 5.0 million;
- Directors of independent branches have individual powers to approve new credit decisions with the limits below UAH 0.1 million.

Loan applications prepared by account managers are forwarded to relevant department that performs credit analysis and makes a decision or passes them on to the relevant credit committee for approval of credit limit within the scope of authority. Exposure to credit risk is also managed by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by credit department officers based on structured analysis focusing on customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by Management Board.

The Bank's credit department reviews ageing of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 9, 10, 11, 12, and 15.

Credit risk of off-balance sheet financial instruments is defined as potential loss due to failure of the other party to a financial instrument to perform its contractual obligations. The Group applies the same credit policies to contingent liabilities as it applies to on-balance sheet financial instruments through established credit approvals, exposure control, and monitoring procedures.

The report on the loan portfolio analysis with detailed analysis of credit risk exposure per overall loan portfolio and per lending segment is presented to governing bodies of the Group on a monthly basis.

31 Financial Risk management (continued)

In order to avoid significant loss caused by credit risk, the Bank performs ongoing control over adherence to credit risk parameters established by the NBU.

As at 31 December 2015, maximum credit risk exposure per counterparty, N7 ratio, calculated as the Bank's total claims to a counterparty or a group of related counterparties and total financial liabilities of a counterparty or a group of related counterparties to the Bank to regulatory capital is 14.17%, while the required ratio is up to 25% (31 December 2014: 21.15%).

As at 31 December 2015, large credit risk ratio, N8, calculated as total large credit risk exposure per counterparties, groups of related counterparties, and the Bank's related parties to regulatory capital is 35.67%, while the required ratio is up to 800% (31 December 2014: 57.63%).

Market risk . The Group is exposed to market risks arising from open positions in: (a) currency, (b) interest rate and (c) equity instruments, all of which are largely dependent on general and specific market developments. Management Board sets acceptable risk limits and monitors adherence to the limits on a daily basis. However, this approach does not prevent losses outside the limits in the event of significant market developments.

Currency risk. Management sets currency risk limits and overall acceptable risk exposure for overnight and intra-day positions, with periodical control performed. The Group is exposed to currency risks arising from open foreign currency positions. These positions are calculated as the differences between assets and liabilities in the same currency as at the reporting date. The Group evaluates and monitors levels of long and short foreign currency open positions using hryvnia as a base currency. Open position limits are set at the level required by the NBU and calculated as open currency position of regulatory capital of the Bank. Compliance with these limits is monitored by Market and Operational Risk Department on a daily basis. Market and Operational Risk Department reports to Asset, Liability and Tariff Management Committee (ALTCO) on a weekly basis.

The Group's currency risk exposure as at the reporting date is presented as follows:

	At 31 December 2015				At 31 December 2014			
In thousands of hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Financial derivatives**	**Net**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net**
US Dollars	2,465,175	(2,988,715)	5,404	(518,136)	2,251,411	(2,742,407)	(9,022)	(500,018)
Euros	670,889	(796,280)	(25,699)	(151,090)	485,796	(549,620)	9,039	(54,785)
British pounds	9,544	(9,291)	-	253	5,326	(5,192)	-	134
Russian roubles	27,577	(16,765)	(10,719)	93	17,340	(17,227)	-	113
Other	84,266	(75,810)	(5,016)	3,440	26,044	(23,022)	-	3,022

The above analysis only includes monetary assets and liabilities. Management believes that investments in equity instruments and non-monetary assets will not give rise to significant currency risk.

31 Financial Risk management (continued)

The following table presents sensitivity analysis of profit or loss and equity to reasonably possible changes in exchange rates as at the reporting date applied to Group's functional currency, with all other variables remaining constant:

	At 31 December 2015		At 31 December 2014	
In thousands of hryvnias	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
40% strengthening of US dollar (2014: 40% strengthening)	(169,949)	(169,949)	(164,006)	(164,006)
40% weakening of US dollar (2014: 40% weakening)	169,949	169,949	164,006	164,006
40% strengthening of Euro (2014: 40% strengthening)	(49,557)	(49,557)	(17,969)	(17,969)
40% weakening of Euro (2014: 40% weakening)	49,557	49,557	17,969	17,969
40% strengthening of Russian rouble (2014: 40% strengthening)	30	30	37	37
40% weakening of Russian rouble (2014: 40% weakening)	(30)	(30)	(37)	(37)
40% strengthening of other currencies (2014: 40% strengthening)	1,211	1,211	1,035	1,035
40% weakening of other currencies (2014: 40% weakening)	(1,211)	(1,211)	(1,035)	(1,035)

The exposure was calculated only for monetary items denominated in currencies other than Group's functional currency.

Interest rate risk. The Group is exposed to interest rate risk arising from the effects of fluctuations in the prevailing market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, however it may decrease or cause losses in case of unexpected fluctuations.

If interest rates on financial instruments denominated in USD had been 200 basis points higher/lower, with all other variables remaining constant, loss for the year would have been UAH 14,970 thousand higher/lower as at 31 December 2015 (31 December 2014: UAH 22,571 thousand), primarily due to increase/decrease in interest expense on variable interest rate liabilities.

If interest rates on financial instruments denominated in EUR had been 200 basis points higher/lower, with all other variables remaining constant, loss for the year would have been UAH 5,188 thousand higher/lower as at 31 December 2015 (31 December 2014: UAH 1,753 thousand), primarily due to increase/decrease in interest expense on variable interest rate liabilities.

If interest rates on financial instruments denominated in UAH had been 200 basis points higher/lower, with all other variables remaining constant, loss for the year would have been UAH 29,594 thousand higher/lower as at 31 December 2015 (31 December 2014: UAH 13,849 thousand), primarily due to increase/decrease in interest expense on variable interest rate liabilities.

If interest rates had been 200 basis points higher/lower, other equity components would have been UAH 15,703 thousand lower/higher (31 December 2014: UAH 16,186 thousand) primarily due to decrease/increase in fair value of investment securities available for sale.

32 Financial Risk management (continued)

The Group monitors interest rates on financial instruments. The table below summarises effective interest rates on interest bearing financial instruments as at the relevant reporting date:

	2015				2014			
% річних	**UAH**	**USD**	**EUR**	**Other**	**UAH**	**USD**	**EUR**	**Other**
Assets								
Cash and cash equivalents.								
- Interest bearing correspondent accounts with other banks	1%	-	-	6%	2%	0%	0%	4%
- Deposit certificates of deposit issued by the NBU	20%	-	-	-	-	-	-	-
Securities at fair value through profit or loss	9%	-	-	-	9%	-	-	-
Due from banks	1%	-	-	-	0%	0%	-	-
Loans and advances to customers								
- at fixed rate	17%	6%	5%	-	13%	7%	5%	-
- at variable rate	22%	7%	8%	-	19%	8%	8%	-
Debt investment securities available for sale	17%	10%	-	-	18%	12%	-	-
Debt investment securities held to maturity	-	11%	-	-	-	7%	-	-
Liabilities								
Due to banks (at variable rate)	-	4%	0%	0%	-	3%	0%	0%
Customer accounts								
- current and settlement accounts	2%	0%	0%	0%	2%	0%	0%	0%
- term deposits	16%	3%	3%	-	15%	4%	2%	-
Subordinated debt	-	1%	-	-	-	1%	-	-

31 Financial Risk Management (continued)

Securities at fair value through profit or loss are represented by indexed bonds. Interest rate shown in the table represents nominal interest rate on UAH-denominated instrument with no consideration of option value effect on general effective yield of this financial instrument.

"-" in the table above means that the Group have no assets or liabilities denominated in the corresponding currency. Information presented in the table relates to fixed rates, if otherwise stated.

Other price risk. The Group is exposed to early repayment risk due to providing fixed rate loans, including mortgages, which allow a borrower to early repay its loan. The Group's current year loss and equity as at the reporting date would not be significantly influenced by changes in early repayment rates, since such loans are carried at amortised cost, and loan amount at early repayment is equal or close to amortised cost of loans and advances to customers.

Geographical risk concentration. *G*eographical analysis of Group's assets and liabilities at 31 December 2015 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Other	Total
Assets				
Cash and cash equivalents	1,049,168	345,881	28,761	**1,423,810**
Securities at fair value through profit or loss	201,204	-	-	**201,204**
Due from banks	4,006	-	91	**4,097**
Loans and advances to customers	4,238,509	34	10,450	**4,248,993**
Investment securities available for sale	785,176	-	-	**785,176**
Securities held to maturity	1,049,724	-	-	**1,049,724**
Other financial assets	30,570	18	8	**30,596**
Total financial assets	**7,358,357**	**345,933**	**39,310**	**7,743,600**
Non-financial assets	**638,056**	**412**	**214**	**638,682**
Total assets	**7,996,413**	**346,345**	**39,524**	**8,382,282**
Liabilities				
Due to banks	80,058	1,319,909	-	**1,399,967**
Customer accounts	5,548,363	89,548	8,955	**5,646,866**
Other financial liabilities	46,330	372	137	**46,839**
Subordinated debt	-	516,946	-	**516,946**
Total financial liabilities	**5,674,751**	**1,926,775**	**9,092**	**7,610,618**
Non-financial liabilities	**66,458**	**3**	**6**	**66,467**
Total liabilities	**5,741,209**	**1,926,778**	**9,098**	**7,677,085**
Net balance sheet position	**2,255,204**	**(1,580,433)**	**30,426**	**705,197**
Credit related commitments	**44,024**	**13,112**	**-**	**57,136**

Assets, liabilities, and credit related commitments have been classified based on counterparty's resident country. Balances with Ukrainian counterparties that actually relate to transactions with offshore companies of these Ukrainian counterparties are presented in column "Ukraine". Cash on hand, premises, leasehold improvements, and equipment have been classified based on the country of their physical presence.

31 Financial Risk Management (continued)

Geographical analysis of Group's assets and liabilities as at 31 December 2014 is presented as follows :

In thousands of hryvnias	**Ukraine**	**OECD**	**Other**	**Total**
Assets				
Cash and cash equivalents	369,073	113,050	18,873	**500,996**
Securities at fair value through profit or loss	117,967	-	-	**117,967**
Due from banks	6,388	-	66	**6,454**
Loans and advances to customers	3,095,320	21	55	**3,095,396**
Investment securities available for sale	809,288	-	-	**809,288**
Securities held to maturity	859,398	-	-	**859,398**
Other financial assets	15,149	18	1	**15,168**
Total financial assets	**5,272,583**	**113,089**	**18,995**	**5,404,667**
Non-financial assets	**607,921**	**2,172**	**142**	**610,235**
Total assets	**5,880,504**	**115,261**	**19,137**	**6,014,902**
Liabilities				
Due to banks	25,277	1,475,513	-	**1,500,790**
Customer accounts	3,529,871	77,138	4,688	**3,611,697**
Other financial liabilities	22,618	1,397	-	**24,015**
Subordinated debt	-	586,886	-	**586,886**
Total financial liabilities	**3,577,766**	**2,140,934**	**4,688**	**5,723,388**
Non-financial liabilities	**32,176**	**2**	**2**	**32,180**
Total liabilities	**3,609,942**	**2,140,936**	**4,690**	**5,755,568**
Net balance sheet position	**2,270,562**	**(2,025,675)**	**14,447**	**259,334**
Credit related commitments	**14,616**	**25,003**	**-**	**39,619**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain sufficient cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to banks, corporate and retail customer deposits, debt securities and subordinated debt. The Group invests the funds in portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring compliance of balance sheet liquidity ratios with regulatory requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the NBU requirements. These ratios include:

- instant liquidity ratio (N4) calculated as highly-liquid assets to current liabilities ratio. As at 31 December 2015, the ratio is 47%, with the required ratio being not less than 20% (31 December 2014: 29%, with the required ratio being not less than 20%).
- current liquidity ratio (N5) calculated as liquid assets to liabilities maturing within 31 calendar days ratio. As at 31 December 2015, the ratio is 70%, with the required ratio being not less than 40% (31 December 2014: 91%, with the required ratio being not less than 40%).
- short-term liquidity ratio (N6) calculated as liquid assets to liabilities with one year or less maturity ratio. As at 31 December 2015, the ratio is 80%, with the required ratio being not less than 60% (31 December 2014: 87%, with the required ratio being not less than 60%).

31 Financial Risk Management (continued)

The Treasury Department receives information on liquidity profile of financial assets and liabilities. The Treasury Department ensures availability of adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks, and other inter-bank facilities, to maintain sufficient liquidity.

The table below shows Group's liabilities at 31 December 2014 by remaining contractual maturity. The amounts disclosed represent contractual undiscounted cash flows, including total credit related commitments and commitments to extend financial guarantees. Such undiscounted cash flows differ from the amounts reported in the statement of financial position, since the amounts in the statement of financial position are based on discounted cash flows.

If the amount payable is not fixed, the amount disclosed is determined by reference to terms and conditions as at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate as at the reporting date.

The maturity analysis of financial liabilities as at 31 December 2015 is presented as follows:

In thousands of hryvnias	**On demand and less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 months - 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to banks	392,864	6,009	780,491	246,938	-	**1,426,302**
Customer accounts	3,510,246	872,757	1,305,214	38,638	34,814	**5,761,669**
Subordinated debt	-	-	-	526,453	-	**526,453**
Other financial liabilities	46,839	-	-	-	-	**46,839**
Credit related commitments, guarantees and letters of credit issued	57,136	-	-	-	-	**57,136**
Total potential future payments under financial liabilities	**4,007,085**	**878,766**	**2,085,705**	**812,029**	**34,814**	**7,818,399**

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of relevant liabilities and commitments disclosed in the above maturity analysis, as the Group does not generally expect the third party to draw funds under such agreements.

The maturity analysis of financial liabilities at 31 December 2014 is presented as follows :

In thousands of hryvnias	**On demand and less than 1 month**	**1 - 3 months**	**3 -12 months**	**12 months - 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to banks	494,620	11,879	211,397	862,658	-	**1,580,554**
Customer accounts	2,375,707	426,088	808,935	41,745	35,838	**3,688,313**
Subordinated debt	-	-	-	604,351	-	**604,351**
Other financial liabilities	23,031	86	597	300	1	**24,015**
Credit related commitments, guarantees and letters of credit issued	39,619	-	-	-	-	**39,619**
Total potential future payments under financial liabilities	**2,932,977**	**438,053**	**1,020,929**	**1,509,054**	**35,839**	**5,936,852**

31 Financial Risk Management (continued)

As disclosed in Note 33, as at 31 December 2014, the Group breached certain financial covenants set by the loan agreement with EBRD, therefore, the loan from EBRD was classified as payable on demand in the above analysis.

Customer accounts are classified based on remaining contractual maturities in the above analysis. However, in accordance with the Civil Code of Ukraine, for deposit agreements concluded prior to 6 June 2015, individuals have the right to withdraw their deposits prior to maturity, with their right to accrued interest forfeited. Some corporate deposit contracts envisage a possibility of early withdrawn. Certain deposit contracts with individuals concluded after 6 June 2015 also envisage early withdrawals. However, management believes based on its experience that majority of counterparties will not withdraw their deposits before maturity.

The Group does not use the above undiscounted cash flow maturity analysis to manage liquidity. Instead, the Group monitors the following expected maturities as at 31 December 2015:

In thousands of hryvnias	**On demand and less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 months - 5 years**	**Over 5 years**	**Total**
As at 31 December 2015						
Financial assets	2,035,097	981,450	2,482,267	1,888,301	356,485	7,743,600
Financial liabilities	3,922,840	840,576	2,028,153	791,578	27,472	7,610,619
Net liquidity gap based on expected maturities	**(1,887,742)**	**140,874**	**454,114**	**1,096,723**	**329,013**	**132,982**
Spot and forward contracts						
- inflows	77,992	-	-	-	-	77,992
- outflows	77,436	-	-	-	-	77,436
At 31 December 2014						
Financial assets	972,504	612,061	1,620,212	1,941,861	258,029	5,404,667
Financial liabilities	2,858,757	413,008	988,125	1,435,227	28,271	5,723,388
Net liquidity gap based on expected maturities	**(1,886,253)**	**199,053**	**632,087**	**506,634**	**229,758**	**(318,721)**
Spot and forward contracts						
- inflows	9,039	-	-	-	-	9,039
- outflows	9,022	-	-	-	-	9,022

31 Financial Risk Management (Continued)

As disclosed in Note 33, as at 31 December 2014 the Group breached certain financial covenants set by loan agreements with EBRD. Although the lender had the right to require early repayment of these loans, the Group did not expect that such a request would be received. Therefore, these loans are classified in accordance with their expected maturities in the table above.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is critical to management. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its response to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by a number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of financing for the Group.

32 Capital management

The Group has the following objectives in managing capital: (i) to comply with the capital requirements set for the Bank by the National Bank of Ukraine, and (ii) to safeguard the Group's ability to continue as a going concern. The management believes that total capital under management of the Group equals the amount of equity as shown in the statement of financial position. The amount of capital that the Group managed as of 31 December 2015 was UAH 705,197 thousand (31 December 2014: UAH 259,334 thousand). The Bank's compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored on the ten day basis. Other objectives of capital management are evaluated annually.

During 2014, the Group received USD 6,021 thousand of non-repayable financial assistance from its Parent Company, PKO BP S.A. aimed to prevent incompliance with capital requirements. This transaction is recognised in equity.

In September 2015 the Bank, based on the guarantee letter from its Parent Company (PKO BP S.A.) obtained a permission from the NBU to early repay the subordinated debt of USD 15,000 thousand received from PKO BP S.A. in 2010 provided that the Parent Company will contribute this amount for Bank's share capital increase purposes. The amount of UAH 330,000 thousand was received by the Bank and accounted for as the unregistered share capital contribution as at the date of the financial statements.

In November 2015, the agreement on purchase of the Bank's newly issued shares was concluded between the Bank and PKO BP S.A. In accordance with the agreement, PKO BP S.A. purchased 33,000,000,000 shares of the Bank totalling UAH 330,000 thousand and paid the nominal value of shares (UAH 0.01 per share).

Transactions with shareholder include write-off of unamortized premium on subordinated debt in the amount of UAH 12,941 thousand which arose from revision of effective interest rate in prior periods.

In March 2015 PKO BP S.A. and Finance Company "Idea Capital" signed agreements regarding forgiveness of loans received by the company in 2014 from PKO BP S.A. The total amount of forgiven debt was USD 8,493 thousand and the relevant amount of unamortized discount from initial recognition of loan at rates below market rates was USD 904 thousand. These amounts are recorded directly in equity in UAH equivalent at the NBU exchange rate at the date of loan forgiveness equalling UAH 199,110 thousand and UAH 21,181 thousand, respectively.

Effective Ukrainian legislation requires that banks form a reserve to cover unforeseen losses on all asset items and off-balance sheet liabilities. The reserve must represent 25% of bank's regulatory capital but not less than 25% of bank's registered share capital. The reserve is formed through charges from net profit for the reporting year retained by the Bank after taxes and retained earnings for previous years.

Charges to the reserve must be no less than 5% of bank's profit until the reserve reaches 25% of bank's regulatory capital.

32 Capital management (continued)

Should bank's operations pose a threat to interests of depositors and other bank's creditors, the National Bank of Ukraine has the right to require increase in the reserve and annual charges thereto. If, as a result of bank's operations, regulatory capital is reduced to an amount lower than share capital, annual charges to the reserve must be 10% of bank's net profit until the reserve reaches 35% of bank's share capital.

The reserve may only be used to cover the bank's losses for the reporting year in accordance with the decision of the bank's board (Supervisory board) and in accordance with the procedure established by the general meeting of its shareholders. Furthermore, effective Ukrainian legislation envisages no restrictions on distribution of the reserve among bank's shareholders upon bank's liquidation after satisfaction of all creditors' claims.

As at 31 December 2015 and 31 December 2014 the Bank's reserve amounts to UAH 40,176 thousand.

Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The table below presents regulatory capital based on the Bank's reports prepared under the NBU requirements, which comprises the following components:

In thousands of hryvnias	**2015**	**2014**
Primary capital	613,961	297,668
Additional capital	494,862	297,668
Total regulatory capital	**1,108,823**	**595,336**

As at 31 December 2015 and 31 December 2014, the Bank is not in compliance with the prescribed minimum level of the regulatory capital required by paragraph 2.4 Section II of the NBU Resolution No 368 dated 28 August 2001 "Guidance on the procedures for regulating banking activities in Ukraine" (as amended) since the Bank's regulatory capital is below its share capital. In February 2016, the NBU cancelled this requirement.

Management believes that the risk of sanctions that may be applied to the Group as a result of the above incompliance is remote.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims. The total amount of provision for litigation is UAH 1,310 thousand.

At 31 December 2014, the Group was engaged in litigation proceedings with two customers of the Group who filed a claim against the Group for damages totalling UAH 13 million. Based on its own estimates and both internal and external professional advice, the Group's management believes the Group will not incur significant losses as a result of these claims, accordingly, no provision has been made in these consolidated financial statements.

Tax legislation. The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines and penalties and interest charges. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes that it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Group's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessment has been made in these consolidated financial statements.

Capital expenditure commitments. At 31 December 2015, the Group had contractual capital expenditure commitments in respect of premises and equipment totalling UAH 12,869 thousand (31 December 2014: UAH 2,040 thousand) and in respect of intangible assets in the amount of UAH 7,211 thousand (31 December 2014: UAH 13,111 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group's management believes that future net income and funding will be sufficient to cover these and any similar commitments.

Operating lease commitments. The Group does not have non-cancellable operating leases.

Compliance with financial covenants. The Group is subject to certain covenants related primarily to loans from other banks. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

There are certain financial covenants under agreement with European Bank for Reconstruction and Development, which terminated in December 2015. In particular, the Bank was required to maintain a certain level of capital to risk weighted assets ratio, highly liquid assets to demand deposits ratio, liquid assets to short-term liabilities ratio, open credit exposure ratio, maximum exposure to related parties to capital ratio, aggregate related party exposure ratio, share of problem loans to gross loans to be in compliance with the NBU prudential requirements.

As at 31 December 2014, the Bank reduced ratio of loans past due over 30 days to gross loans and advances (before impairment) to 14.74%. However, it is still higher than the required ratio under agreements with EBRD.

This non-compliance with loan covenants gives the EBRD legal right to demand early repayment of the loans. As at 31 December 2015, the Bank repaid loans under loan agreement with EBRD in full.

33 Contingencies and Commitments (continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of hryvnias	**Note**	**2015**	**2014**
Guarantees issued		60,721	44,030
Less: Provision for credit related commitments	19	(97)	(996)
Less: Cash covered credit related commitments	18	(3,488)	(3,415)
Total credit related commitments		**57,136**	**39,619**

Credit related commitments are denominated in currencies as follows:

In thousands of hryvnias	**2015**	**2014**
Ukrainian hryvnias	41,284	14,425
Euros	13,504	25,194
US dollars	2,348	-
Total	**57,136**	**39,619**

As at 31 December 2015, all commitments to extend credits are revocable and amount to UAH 833,355 thousand (31 December 2014: UAH 443,344 thousand).

The total outstanding contractual commitments to extend credit, import letters of credit, and guarantees do not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

34 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that IFRS require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2015				**2014**			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Securities at fair value through profit or loss								
- Ukrainian Government bonds	-	201,204	-	**201,204**	-	117,967	-	**117,967**
Investment securities available for sale								
- Ukrainian Government bonds	-	785,146	-	**785,146**	-	737,909	-	**737,909**
- Corporate bonds	-	-	-	**-**	-	69,420	1,929	**71,349**
- Corporate shares	-	-	30	**30**	-	-	30	**30**
Non-financial assets								
- Premises	-	272,847	-	**272,847**	-	275,333		**275,333**
- Investment properties	-	8,928	-	**8,928**	-	8,928	-	**8,928**
Other financial assets								
- Currency forward contracts	-	93	-	**93**	-	-	-	**-**
Total assets recurring fair value measurements	**-**	**1,268,218**	**30**	**1,268,248**	**-**	**1,209,557**	**1,959**	**1,211,516**

34 Fair Value Disclosures (Continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements as at 31 December 2015:

In thousands of hryvnias	Fair value	Valuation technique	Inputs used
Assets at fair value			
Financial assets			
Securities at fair value through profit or loss			
- Ukrainian Government bonds	201,204	Market approach	Quoted prices on less active market
Investment securities available for sale			
- Ukrainian Government bonds	785,146	Market approach	Quoted prices on less active market
- Corporate bonds	-	Market approach	Quoted prices on less active market
Non-financial assets			
- Premises	272,847	Market approach	Comparable prices for similar properties
- Investment properties	8,928	Market approach	Comparable prices for similar properties
Other financial assets			
- Currency forward contracts	93	Market approach	Comparison of value for similar assets
Total recurring fair value measurements at level 2	**1,268,218**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2015 and 2014.

A reconciliation of movements in Level 3 of the fair value hierarchy for 2015 and 2014 is as follows:

	Securities available for sale	
In thousands of hryvnias	**Corporate bonds**	**Corporate shares**
Fair value as at 1 January 2015	**1,929**	**30**
Gains or losses recognised in profit or loss for the year	307	-
Additions	(2,236)	-
Fair value as at 31 December 2015	**-**	**30**
Unrealised revaluation gains less losses recognised in profit or loss for the reporting year for assets held as at 31 December 2015	**(475)**	**-**

	Securities available for sale	
In thousands of hryvnias	**Corporate bonds**	**Corporate shares**
Fair value as at 1 January 2014	**-**	**30**
Gains or losses recognised in profit or loss for the year	(20,915)	-
Purchase	22,844	-
Fair value as at 31 December 2014	**1,929**	**30**
Unrealised revaluation gains less losses recognised in profit or loss for the reporting year for assets held as at 31 December 2014	**(22,787)**	**-**

34 Fair Value Disclosures (Continued)

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2015				**2014**			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Assets								
Due from banks	-	**4,097**	-	**4,097**	-	**6,454**	-	**6,454**
- Guarantee deposits	-	4,097	-	4,097	-	6,454	-	6,454
Loans and advances to customers	-	-	**4,156,105**	**4,248,993**	-	**-**	**2,885,607**	**3,095,396**
- Corporate loans	-	-	2,730,959	2,791,908	-	-	1,931,242	1,972,173
- Loans to individuals - consumer and car loans	-	-	988,654	1,006,276	-	-	610,230	721,551
- Loans to individuals – mortgage loans	-	-	436,492	450,809	-	-	309,056	366,593
Reverse sale and repurchase agreements	-	-	-	-	-	-	35,079	35,079
Investment securities held to maturity	**-**	**1,057,814**	-	**1,049,724**	**-**	**873,509**	**-**	**859,398**
Other financial assets	-	**30,596**	-	**30,596**	**-**	**15,168**	**-**	**15,168**
- Receivables from operations with clients and banks	-	20,485	-	20,485	-	9,363	-	9,363
- Accrued income	-	4,646	-	4,646	-	5,497	-	5,497
- Receivables from operations with plastic cards	-	5,465	-	5,465	-	308	-	308
Total	**-**	**1,092,507**	**4,156,105**	**5,333,410**	-	**895,131**	**2,885,607**	**3,976,416**

Fair values analysed by level in the fair value hierarchy and carrying amount of liabilities not measured at fair value are as follows:

	2015				**2014**			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Liabilities								
Due to banks	-	**1,401,074**	-	**1,399,967**	-	**1,417,500**	-	**1,500,790**
- Correspondent accounts of other banks	-	221,705	-	221,705	-	474,242	-	474,242
- Term deposits and loans of other banks	-	1,179,369	-	1,178,262	-	943,258	-	1,026,548
Customer accounts	-	**5,592,357**	-	**5,646,866**	-	**3,589,894**	-	**3,611,697**
- Current/settlement accounts of legal entities	-	1,986,369	-	1,986,369	-	1,311,254	-	1,311,254
- Term deposits of legal entities	-	935,655	-	947,438	-	349,990	-	350,264
- Current/demand accounts of individuals	-	721,963	-	721,963	-	411,390	-	411,390
- Term deposits of individuals	-	1,948,370	-	1,991,096	-	1,517,260	-	1,538,789
Other financial liabilities	-	**46,839**	-	**46,839**	-	**24,015**	-	**24,015**
- Funds in settlements	-	20,681	-	20,681	-	11,455	-	11,455
- Other accrued liabilities	-	14,185	-	14,185	-	10,572	-	10,572
- Funds of the Deposit Guarantee Fund for reimbursement of deposits from other banks	-	11,833	-	11,833	-	-	-	-
- Provision for credit related commitments	-	97	-	97	-	996	-	996
- Other	-	43	-	43	-	992	-	992
Subordinated debt	-	**490,052**	-	**516,946**	-	**443,143**	-	**586,886**
Total	**-**	**7,530,322**	**-**	**7,610,618**	**-**	**5,474,552**	**-**	**5,723,388**

34 Fair Value Disclosures (Continued)

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current weighted average interest rate for existing instruments with similar remaining maturity.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

35 Presentation of Financial Instruments by Measurement Categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets available for sale; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2015:

In thousands of hryvnias	**Loans and receivables**	**Assets available for sale**	**Assets designated at FVTPL**	**Investment securities held to maturity**	**Total**
Assets					
Cash and cash equivalents	1,423,810	-	-	-	**1,423,810**
Securities at fair value through profit or loss	-	-	201,204	-	**201,204**
Due from banks					
- Guarantee deposits	-	-	4,097	-	**4,097**
Loans and advances to customers					**-**
- Corporate loans	2,791,908	-	-	-	**2,791,908**
- Loans to individuals - consumer loans	1,006,276	-	-	-	**1,006,276**
- Loans to individuals – mortgage loans	450,809	-	-	-	**450,809**
Investment securities available for sale	-	785,176	-	-	**785,176**
Investment securities held to maturity	-	-	-	1,049,724	**1,049,724**
Other financial assets	30,503	-	93	-	**30,596**
Total financial assets	**5,703,306**	**785,176**	**205,394**	**1,049,724**	**7,743,600**

35 Presentation of Financial Instruments by Measurement Categories (continued)

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2014:

In thousands of hryvnias	Loans and receivables	Available for sale assets	Assets designated at FVTPL	Investment securities held to maturity	Total
Assets					
Cash and cash equivalents	500,996	-	-	-	**500,996**
Securities at fair value through profit or loss	-	-	117,967	-	**117,967**
Due from banks					
- Guarantee deposits	6,454	-	-	-	**6,454**
Loans and advances to customers					
- Corporate loans	1,972,173	-	-	-	**1,972,173**
- Loans to individuals - consumer loans	721,551	-	-	-	**721,551**
- Loans to individuals – mortgage loans	366,593	-	-	-	**366,593**
Reverse sale and repurchase agreements	35,079	-	-	-	**35,079**
Investment securities available for sale	-	809,288	-	-	**809,288**
Investment securities held to maturity	-	-	-	859,398	**859,398**
Other financial assets	15,168	-	-	-	**15,168**
Total financial assets	**3,618,014**	**809,288**	**117,967**	**859,398**	**5,404,667**

As at 31 December 2015 and 31 December 2014, all of the Group's financial liabilities were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

36 Related party transactions

Parties are generally 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2015, the outstanding balances with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	56,830	-	-
Gross amount of loans and advances to customers (contractual interest rate: in hryvnias -8.5%, in USD – 2.08%)	-	-	569
Provision for impairment of loans and advances to customers	-	-	(30)
Other assets	327	3	-
Correspondent accounts and overnight deposits of other banks	141,647	-	-
Term deposits and loans from other banks (contractual interest rate: in USD min 1.8%– max.3.84%)	1,178,262	-	-
Customer accounts (contractual interest rate: in USD: min. 0.1%, max. 4%; in EUR: 0.5%; in UAH: min. 0.1% - max. 16%)	-	32,546	186
Subordinated debt (contractual interest rate: in USD – 1.0695%)	516,946	-	-
Other liabilities	210	822	1,649

36 Related party transactions (continued)

The income and expense items on transactions with related parties for 2015 were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	-	-	27
Interest expense	(56,592)	(4,232)	(11)
Other income	-	31	-
Provision for impairment of loans and investments	-	-	27
Fee and commission income	12	209	22
Fee and commission expense	(1,126)	-	-
Other expenses	(5,085)	(6,772)	1

As at 31 December 2015, other rights and obligations with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Loan commitments received	438,197	-	-
Other commitments granted	54,519	-	67
Other rights received	41,433	-	-
Guarantees received	26,881	-	-
Collateral received	-	-	741

Total amounts granted to related parties and repaid by them in 2015 are presented below:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts repaid by the related parties for the period	-	-	(114)

As disclosed in Note 32:

- in September 2015 based on the guarantee letter from the parent company (PKO BP S.A.), the Bank obtained a permit from the National Bank of Ukraine for early repayment of the subordinated debt in the amount of USD 15,000 thousand, received from PKO BP S.A. in 2010, providing that the parent company will use this loan to increase the share capital of the Bank. These funds were received by the Bank within the mentioned term and recorded as non-registered contributions to the share capital in the amount of UAH 330,000 thousand. In November 2015 PKO BP S.A and the Bank concluded the purchase and sale agreement of shares of the Bank's new issue. Under the terms of this agreement PKO BP SA purchased 33,000,000,000 of the Bank's shares totalling UAH 330,000 thousand, having paid a nominal value of shares (0,01 hryvnia per share).

- Transactions with the shareholder include unamortized premium amounting to UAH 12,941 thousand which was derecognized at the time of premature repayment of subordinated debt which was initially originated from the revised effective interest rate under amended terms of the contract.

- in 2014 the Group received non-repayable financial assistance in the amount of USD 6,021 thousand from its parent company (PKO BP S.A.) aimed to prevent incompliance with capital requirements. This financial assistance and related income tax in the amount of UAH 9,437 thousand were recognised in equity.

As disclosed in Note 10, as at 31 December 2014 the PKO BP SA deposit with other bank in the amount of UAH 185,123 thousand was pledged as a collateral for a number of lending transactions. As at 31 December 2015 there is no such collateral.

36 Related party transactions (continued)

As disclosed in Note 17:

- in 2014 the Group's subsidiary received a loan from PKO BP S.A. in the amount of USD 21,319 thousand at interest rate of 6-month USD LIBOR + 3% p.a. maturing in 3 years. The Group recognised a gain of UAH 38,368 thousand from initial recognition of the loan. Interest expenses for the year ended 31 December 2015 include amortisation of gain from initial recognition of the loan at fair value in the amount of UAH 17,570 thousand (in 2014 – UAH 10,836 thousand).

- in March 2015 PKO BP S.A. and subsidiary company of the Group concluded the agreement on forgiveness of a debt received by the subsidiary from PKO BP S.A. in 2014. The debt forgiveness totals to USD 8,493 thousand, the relevant amount of non-amortized discount from the initial recognition of a loan at rates below market was USD(904) thousand. The mentioned amounts are presented at the NBU exchange rate equivalent as at the day of debt forgiveness and amount to UAH 199,110 thousand and UAH (21,181) thousand, accordingly.

As at 31 December 2014, the outstanding balances with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	12,593	-	-
Gross amount of loans and advances to customers (contractual interest rate: in USD – 2.8%)	-	-	306
Impairment provisions for loans and advances to customers	-	-	(54)
Other assets	718	-	-
Correspondent accounts and overnight placements of other banks	448,964	-	-
Term deposits and loans from other banks (contractual interest rate: in USD – 3.15%, in EUR – 0.15%)	1,008,105	-	-
Customer accounts (contractual interest rate: in USD min.– 0.1% max-4%;in EUR: 0.5%; in UAH: min.– 0.1%, max - 16%)	-	42,365	188
Subordinated debt (contractual nominal interest rate: in USD – 1.0695%)	586,886	-	-
Other liabilities	77	446	1,055

The income and expense items on transactions with related parties for 2014 were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key Management personnel**
Interest income	-	-	7
Interest expense	(45,304)	(6,449)	(9)
Other income	-	19,975	-
Provision for impairment of loans and investments	-	-	(30)
Positive result at initial recognition of financial instrument	38,368	-	-
Fee and commission income	6	729	11
Fee and commission expense	(1,021)	-	-
Other expenses	(461)	(2,951)	-

36 Related party transactions (continued)

As at 31 December 2014, other rights and obligations on transactions with related parties were as follows::

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Loan commitments received	99,082	-	-
Loan commitments granted	25,003	-	-
Pledge received	-	-	601

Aggregate amounts lent to and repaid by related parties during 2014 were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts repaid by related parties during the period	-	-	(34)

Key management personnel compensation is presented below:

	2015		**2014**	
In thousands of hryvnias	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	20,406	684	12,369	472
- Annual bonus	4,351	-	83	-
- Termination bonus	824	756	169	395
Post-employment benefits:				
- State pension and social security costs	722	209	675	192
Total	**26,303**	**1,649**	**13,296**	**1,059**

Short-term benefits fall due wholly within twelve months after the end of the period in which management rendered the related services.

37 Subsequent events

Subsequent to the reporting date hryvnia has been essentially devaluated, in particular, as at 9 March 2016 the exchange rate of hryvnia to USD has increased to UAH 26,50 per USD 1 in comparison with UAH 24,00 per USD1 as at 31 December 2015.