JSC “KREDOBANK”

International Financial Reporting Standards Separate Financial Statements and Independent Auditors’ Report

31 December 2016

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Independent Auditors' Report

To the Board of Directors of

Public Joint-Stock Company "Kredobank"

We have audited the accompanying separate financial statements of Public Joint-Stock Company "Kredobank" ("the Bank"), which comprise the separate statement of financial position as at 31 December 2016, and the separate 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate financial statements based on our audit. We conducted our audit in accordance with Ukraine`s National Standards on Auditing pursuant to the 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 about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

УКРАЇНА * ПРИВАТНЕ АКЦІОНЕРНЕ ТОВАРИСТВО * м. КИЇВ * «КПМГ Аудит» Ідентифікаційний код 31032100

Anna Parkhomenko
Deputy Director

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

7 March 2017

In thousands of hryvnias	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	7	1,379,352	1,423,810
Securities at fair value through profit or loss	8	-	201,204
Due from banks	9	41,934	4,097
Loans and advances to customers	10	5,594,596	4,139,680
Investment securities available-for-sale	11	1,435,855	785,176
Investment securities held-to-maturity	12	1,712,872	1,049,724
Current income tax prepayment		7,509	18,878
Deferred income tax asset, net	28	26,593	32,218
Investment property	13	10,711	8,928
Intangible assets	14	61,329	59,893
Premises, leasehold improvements and equipment	14	599,129	456,696
Other financial assets	15	30,111	30,596
Other non-financial assets	16	104,601	61,384
Total assets		**11,004,592**	**8,272,284**
Liabilities			
Due to banks	17	1,045,976	1,157,739
Customer accounts	18	8,172,964	5,654,337
Other financial liabilities	19	44,952	46,839
Other non-financial liabilities	20	94,921	66,467
Subordinated debt	21	557,904	516,946
Total liabilities		**9,916,717**	**7,442,328**
Equity			
Share capital	22	2,248,969	1,918,969
Non-registered share capital		-	330,000
Accumulated deficit		(1,296,841)	(1,564,062)
Revaluation reserve for premises		125,624	129,001
Revaluation reserve for investment securities available-for-sale		10,123	16,048
Total equity		**1,087,875**	**829,956**
Total liabilities and equity		**11,004,592**	**8,272,284**

Approved for issue and signed on behalf of the Management Board on 7 March 2017

G. Szatkowski
Chairman of the Management Board

V. Lototsky
Chief Accountant

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК» KredoBank 09807862 УКРАЇНА * М. ЛЬВІВ

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

In thousands of hryvnias	Note	2016	2015
Interest income	24	1,286,576	879,336
Interest expense	24	(408,511)	(315,223)
Net interest income		**878,065**	**564,113**
Provision for loan impairment	10	(189,953)	(200,380)
Net interest margin after provision for loan impairment		**688,112**	**363,733**
Fee and commission income	25	346,126	283,847
Fee and commission expense	25	(62,808)	(35,815)
Gains less losses from trading in foreign currencies		59,989	64,669
Net foreign exchange loss		(306)	(85,178)
Gains less losses from securities at fair value through profit or loss		1,513	83,220
Gains less losses from disposal of investment securities available-for-sale		6,572	1,490
Gains from recovery of investment securities available-for-sale		-	388
Provision for other financial and non-financial assets		(5,379)	(6,478)
Provision for other losses and credit related commitments		(2,739)	(156)
Other operating income	26	13,119	13,558
Administrative and other operating expenses	27	(705,295)	(540,485)
Profit before tax		**338,904**	**142,793**
Income tax expense for the year	28	(75,133)	(30,344)
Profit for the year		**263,771**	**112,449**
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
Investment securities available-for-sale:			
- Net change in fair value of investment securities available-for-sale	23	(13,731)	(11,350)
- Net change in fair value of investment securities available-for-sale transferred to profit or loss	23	7,806	21,913
Items that will not be reclassified to profit or loss:			
Revaluation of premises:			
- Revaluation of items which were transferred from owner occupied property to investment property on the date of change in use	23	73	-
Income tax recorded directly in other comprehensive income	23, 28	-	12
Other comprehensive (loss)/income for the year		**(5,852)**	**10,575**
Total comprehensive income for the year		**257,919**	**123,024**
Basic and diluted earnings/(loss) per share attributable to shareholders based on the consolidated financial statement of the Group, (UAH per share)	**29**	**0.0009**	**(0.0004)**

Approved for issue and signed on behalf of the Management Board on 7 March 2017.

G. Szatkowski
Chairman of the Management Board

V. Lototsky
Chief Accountant

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KredoBank
09807862
УКРАЇНА * М. ЛЬВІВ

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

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 2015		**1,918,969**	**-**	**5,485**	**133,430**	**(1,693,893)**	**363,991**
Profit for the year		-	-	-	-	112,449	112,449
Other comprehensive income	23	-	-	10,563	12	-	10,575
Total comprehensive income for 2015		-	-	10,563	12	112,449	123,024
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	-	(4,441)	4,441	-
Transactions with shareholders							
Transactions with the parent company	36	-	-	-	-	12,941	12,941
Non-registered share capital	21, 22	-	330,000	-	-	-	330,000
Transactions with shareholders, total		**-**	**330,000**	**-**	**-**	**12,941**	**342,941**
Balance as at 31 December 2015		**1,918,969**	**330,000**	**16,048**	**129,001**	**(1,564,062)**	**829,956**
Profit for the year		-	-	-	-	263,771	263,771
Other comprehensive loss	23	-	-	(5,925)	73	-	(5,852)
Total comprehensive income for 2016		-	-	(5,925)	73	263,771	257,919
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	-	(3,450)	3,450	-
Transactions with shareholders							
Non-registered share capital	22	330,000	(330,000)	-	-	-	-
Transactions with shareholders, total		**330,000**	**(330,000)**	**-**	**-**	**-**	**-**
Balance as at 31 December 2016		**2,248,969**	**-**	**10,123**	**125,624**	**(1,296,841)**	**1,087,875**

Approved for issue and signed on behalf of the Management Board on 7 March 2017.

G. Szatkowski
Chairman of the Management Board

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Chief Accountant

KredoBank
09807862

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In thousands of hryvnias	Note	2016	2015
Cash flows from operating activities			
Interest received		1,180,516	834,951
Interest paid		(423,036)	(313,183)
Fees and commissions received		347,650	280,981
Fees and commissions paid		(62,808)	(35,815)
Income received from trading in foreign currencies		59,989	64,669
Other operating income received		12,276	11,655
Staff costs paid		(268,497)	(218,850)
Administrative and other operating expenses paid		(318,227)	(242,251)
Income tax paid		(58,605)	(8,078)
Cash flows from operating activities before changes in operating assets and liabilities		**469,258**	**374,079**
Net (increase)/decrease in due from banks		(36,698)	4,165
Net decrease in securities at fair value through profit or loss		199,756	-
Net increase in loans and advances to customers		(1,494,464)	(883,750)
Net increase in other financial and non-financial assets		(51,121)	(26,454)
Net decrease in due to banks		(219,015)	(403,640)
Net increase in customer accounts		2,270,683	1,150,178
Net (decrease)/increase in other financial and non-financial liabilities		(7,490)	13,425
Net cash from operating activities		**1,130,909**	**228,003**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(1,718,263)	(791,794)
Proceeds from disposal and redemption of investment securities available-for-sale		1,198,301	1,198,470
Acquisition of investment securities held-to-maturity		(1,559,774)	(597,865)
Proceeds from disposal and redemption of investment securities held-to-maturity		1,103,256	819,759
Acquisition of premises and equipment	14	(205,286)	(73,012)
Proceeds from disposal of premises, equipment and intangible assets		1,370	1,011
Acquisition of intangible assets	14	(27,766)	(28,471)
Net cash (used in)/from investing activities		**(1,208,162)**	**528,098**
Cash flows from financing activities			
Redemption of subordinated debt	21,36	-	(326,077)
Contributions paid to non-registered share capital	21,22	-	330,000
Net cash from financing activities		**-**	**3,923**
Effect of exchange rate fluctuations on cash and cash equivalents		**32,795**	**162,790**
Net (decrease)/ increase in cash and cash equivalents		**(44,458)**	**922,814**
Cash and cash equivalents as at the beginning of the year		1,423,810	500,996
Cash and cash equivalents as at the end of the year	3, 7	**1,379,352**	**1,423,810**

Approved for issue and signed on behalf of the Management Board on 7 March 2017.

G. Szatkowski
Chairman of the Management Board

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Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for Public Joint-Stock Company “Kredobank” (the “Bank”) in addition to the IFRS consolidated financial statements of the Bank for submission to the National Bank of Ukraine (the "NBU") as required by paragraph 8.1 of Section III of the Instruction on the procedure for preparation of financial statements by the Ukrainian banks and making them public approved by the Resolution of the NBU Board No 373 on 10 November 2011, as amended. These separate financial statements should be read in conjunction with the consolidated financial statements published on the Bank's official web site (www.kredobank.com.ua).

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 2016 and 31 December 2015, 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 Ministry of State Treasury of Poland. The Bank does not have transactions with the Ministry of State Treasury of Poland. As at 31 December 2016, PKO BP S.A. owns 99.6293% of shares of the Bank (31 December 2015: 99.5655%).

Principal activity. The Bank’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 # 43-2 issued on 19 October 2016, 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 (2015: UAH 200 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2016, the Bank has 111 outlets (in 2015 – 110 outlets) in Ukraine.

The key strategic goal of the Bank is to conduct profitable activities. The mission of the Bank 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.

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 separate financial statements are presented in hryvnias ("UAH"), unless otherwise stated.

2 Operating environment of the Bank

In 2016 the Ukrainian economy and banking sector continued to be significantly affected by the following political and social factors that arose in 2014-2015:

- a part of Ukrainian territory (Autonomous Republic of Crimea) remained under temporary occupation by the Russian Federation as a result of the annexation that was not recognised by international community (United Nations General Assembly Resolution 68/262 of 27 March 2014 "Territorial Integrity of Ukraine" and United Nations General Assembly Resolution 71/205 of 19 December 2016 "Situation of human rights in the Autonomous Republic of Crimea and the city of Sevastopol (Ukraine)";

- on a part of Ukrainian territory (certain areas in the Donetsk and Lugansk regions), the military conflict and armed clashes with separatist groups supported from abroad continued during 2016. The Ukrainian authorities continued the anti-terrorist operation with the involvement of the Armed Forces and law enforcement bodies. As at the date of approval of these separate financial statements, certain areas of the Donetsk and Lugansk regions remained under control of the separatist groups, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

The above circumstances make impossible any business of Ukrainian banks and companies in Autonomous Republic of Crimea and on part of the Donetsk and Lugansk regions.

The annexation of Autonomous Republic of Crimea resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation, deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade in 2014-2015, 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, 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.

Following the continuous recession, Ukrainian economy resumed its growth in 2016. The country's GDP was growing steadily throughout 2016, from 0.1% in Quarter 1 to 4.7% in Quarter 4 year-on-year. During the year ended 31 December 2016, the inflation rate declined to 12.4% year-on-year, the commercial and retail customer deposits grown by 12% and 5% year-on-year, respectively. The National Bank of Ukraine began to take the edge off the monetary policy and partially liberalise foreign currency restrictions. During 2016, the NBU reduced the discount rate six times, from 22% to 14% p.a. as at 31 December 2016.

Cooperation with International Monetary Fund remains an important macroeconomic stability factor for Ukraine. In September 2016 Ukraine received the third tranche under EFF of around USD1 bn bringing along additional finance from the EU and US. As a result, in 2016 Ukraine's international reserves increased by 16% to USD 15.5 bn.

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

3 Significant accounting policies

Basis of preparation. These separate 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 separate 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 separate financial statements on a going concern basis. In making this judgement management considered the Bank'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 Bank.

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 Bank. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Bank 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 Bank: (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 (refer to Note 34).

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 of financial instrument. 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 Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired, or (b) the Bank 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 Bank, including amounts charged or credited to current accounts of the Bank’s counterparties, 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.

3 Significant accounting policies (continued)

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 Bank 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 Bank'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 Bank'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.

Due from banks. Due from banks are recorded when the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 due to the borrower's financial difficulties.

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.

3 Significant accounting policies (continued)

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.

If the terms of 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.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Bank 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 Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available-for-sale. This classification includes investment securities which the Bank 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 Bank classifies investments as available-for-sale at the time of purchase.

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.

3 Significant accounting policies (continued)

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank'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 instrument 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 Bank 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 Bank has both the intention and ability to hold to maturity. An investment security is not classified as a held-to-maturity investment if the Bank 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.

Finance lease. Where the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation, or both. 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.

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 Bank'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.

3 Significant accounting policies (continued)

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.

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 Bank 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 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).

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 Bank’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 Bank 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 no more than 10 years (2015: up to 10 years).

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, 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.

3 Significant accounting policies (continued)

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 Bank 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 Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortized cost.

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 Bank 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 Bank 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 separate 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 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 Bank 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 Bank'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 Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

The Bank does not designate loan commitments as financial liabilities at fair value through profit or 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 Bank is the currency of the economic environment in which the Bank operates. The Bank's functional and presentation currency is the national currency of Ukraine, hryvnias.

Monetary assets and liabilities are translated into the Bank'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 instruments are recorded as part of the fair value gain or loss.

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

	31 December 2016, UAH	**31 December 2015, UAH**
1 US dollar (USD)	27.1908	24.0007
1 Euro (EUR)	28.4226	26.2231
1 Russian Rouble (RUB)	0.4511	0.3293

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the 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 (1) must not be contingent on a future event and (2) 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.

3 Significant accounting policies (continued)

Staff costs and related charges. 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 Bank. The Bank 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 Bank'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 separate 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.

Presentation of statement of financial position in order of liquidity. The Bank 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.

	31 December 2016			31 December 2015		
	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	1,379,352	-	1,379,352	1,423,810	-	1,423,810
Securities at fair value through profit or loss	-	-	-	201,204	-	201,204
Due from banks	41,934	-	41,934	4,097	-	4,097
Loans and advances to customers	2,689,478	2,905,118	5,594,596	2,046,417	2,093,263	4,139,680
Investment securities available-for-sale	173,570	1,262,285	1,435,855	636,018	149,158	785,176
Investment securities held-to-maturity	595,177	1,117,695	1,712,872	1,049,724	-	1,049,724
Current income tax prepayment	7,509	-	7,509	-	18,878	18,878
Deferred income tax asset	9,465	17,128	26,593	-	32,218	32,218
Investment property	-	10,711	10,711	-	8,928	8,928
Intangible assets	-	61,329	61,329	-	59,893	59,893
Premises, leasehold improvements and equipment	-	599,129	599,129	-	456,696	456,696
Other financial assets	30,111	-	30,111	30,596	-	30,596
Other assets	104,601		104,601	61,384	-	61,384
Total assets	**5,031,197**	**5,973,395**	**11,004,592**	**5,453,250**	**2,819,034**	**8,272,284**
Liabilities						
Due to banks	1,045,976	-	1,045,976	1,157,739	-	1,157,739
Customer accounts	8,024,698	148,266	8,172,964	5,594,461	59,876	5,654,337
Other financial liabilities	44,952	-	44,952	46,839	-	46,839
Other non-financial liabilities	94,921	-	94,921	66,467	-	66,467
Subordinated debt	557,904	-	557,904	-	516,946	516,946
Total liabilities	**9,768,451**	**148,266**	**9,916,717**	**6,865,506**	**576,822**	**7,442,328**

4 Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the separate 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 of the Bank 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 separate 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 Bank 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 Bank 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.

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 23,477 thousand or a decrease in loan impairment losses by UAH 35,173 thousand (2015: an increase by UAH 29,932 thousand or a decrease by UAH 40,641 thousand), respectively.

During the year ended 31 December 2016, management changed the presentation of accrued interest income for certain impaired loans and advances to customers. Previously for this group of impaired loans the Bank presented interest income accrued (unwinding of interest) as a reduction of provision for loan impairment. For the year ended 31 December 2015, amount of interest income recorded for this group of loans amounted to UAH 17,779 thousand (refer to Note 10). In 2016, interest income accrued for this group of loans was presented as an increase in their gross value in the amount of UAH 13,555 thousand with further assessment of the amount of required impairment for these loans.

Valuation of own use premises. As stated in Note 3, buildings held by the Bank 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. 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 27,370 thousand (2015: UAH 26,263 thousand).

5 Adoption of new or revised standards and interpretations

During 2016, there were neither significant amendments to the standards, nor any new standards or interpretations that would have a significant impact on the Bank's separate financial statements.

6 New accounting pronouncements

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these separate financial statements. The Bank plans to adopt these pronouncements when they become effective.

IFRS 9 Financial Instruments, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognize expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months (‘12-month ECL’) or expected credit losses resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Initial amount of expected credit losses recognized for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL. Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Hedge accounting. The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

Transition. The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Bank does not intend to adopt the standard earlier.

The Bank has started a formal assessment of potential impact on separate financial statements resulting from the application of IFRS 9 and approved a preliminary plan of preparation for implementation of IFRS 9. Accordingly, it is difficult to estimate reliably the direct impact that the application of IFRS 9 will have on the Bank’s separate financial statements.

6 New accounting pronouncements (continued)

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programmes. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 15.

IFRS 16 Leases replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 16.

Other amendments. The following new or amended standards are not expected to have significant impact on the separate financial statements of the Bank:

- Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows);
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 Income Taxes);
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 Share-Based Payment).

7 Cash and cash equivalents

In thousands of hryvnias	**2016**	**2015**
Cash on hand	210,894	242,494
Cash balances on the correspondent account with the NBU	335,548	106,576
Correspondent accounts with other banks	547,378	377,860
Deposit certificates of the NBU	285,532	696,880
Total cash and cash equivalents	**1,379,352**	**1,423,810**

As at 31 December 2015 and 2016, mandatory reserve balance with the NBU is calculated on the basis of a simple average during the month and should be from 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.

As at 31 December 2015, the Bank may satisfy its mandatory reserve requirement with 75% of the Ukrainian hryvnia balances of cash on hand in the Bank's offices, outlets and ATMs, as well as 100% of the balance on the correspondent account with JSC "Settlement Centre".

In March 2016 the NBU canceled its resolution to include above assets to the mandatory reserve coverage.

The mandatory reserve balance on the correspondent account with the National Bank of Ukraine on the opening of the banking day should be no less than 40% of the estimated mandatory reserve balance for the respective period.

The estimated mandatory reserve balance as at 31 December 2016 is UAH 416,158 thousand (2015: UAH 300,952 thousand). As at 31 December 2016, 40% of the estimated mandatory reserve balance amounts to UAH 166,463 thousand (as at 31 December 2015: UAH 120,381 thousand).

As at 31 December 2016 and 2015 the NBU does not require to keep mandatory reserve at the separate account. The mandatory reserve balance should be maintained at the beginning of the banking day, the Bank has the right to use such cash and cash equivalents in its usual operating activities during the day without any restrictions. The NBU establishes the number of non-compliance cases for daily opening mandatory reserve balances on the correspondent account of ten times per three months. Accordingly, the Bank classifies minimal mandatory reserves with the NBU as cash and cash equivalents.

As at 31 December 2016 and 2015, the Bank was in compliance with the mandatory reserve requirements.

As at 31 December 2016, the Bank's cash and cash equivalents for the purposes of the statement of cash flows amounted to UAH 1,379,352 thousand (as at 31 December 2015: UAH 1,423, 810 thousand).

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 2016, 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	335,548	-	285,532	621,080
- Aaa – Aa3 rated	-	167,845	-	167,845
- A1 - A3 rated	-	238,663	-	238,663
- Baa1 - Baa3 rated	-	89,841	-	89,841
- Ba1 - Ba3 rated	-	47,675	-	47,675
- B1-B3 rated	-	5	-	5
- Unrated	-	3,349	-	3,349
Total neither past due nor impaired	**335,548**	**547,378**	**285,532**	**1,168,458**
Impaired				
- Unrated	-	1,090	-	1,090
Total impaired	-	**1,090**	-	1,090
Less provision for impairment	-	**(1,090)**	-	(1,090)
Total cash and cash equivalents, excluding cash on hand	**335,548**	**547,378**	**285,532**	**1,168,458**

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
- B1-B3 rated	-	-	-	-
- Rated lower than Caa1	-	1,353	-	1,353
- Unrated	-	3,673	-	3,673
Total neither past due nor impaired	**106,576**	**377,860**	**696,880**	**1,181,316**
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 2016, the Bank had a concentration of balances on current accounts with other credit institutions of UAH 357,712 thousand due from three largest banks with credit ratings of investment grade (as at 31 December 2015 – UAH 279,818 thousand).

8 Securities at fair value through profit or loss

In thousands of hryvnias	**2016**	**2015**
Ukrainian government bonds	-	201,204
Total debt securities	-	201,204
Total securities at fair value through profit or loss	**-**	**201,204**

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 Bank irrevocably designates the above securities, which are not part of its trading book, as at fair value through profit or loss. These securities comply with requirements for classification of securities at fair value through profit or loss, as according to its investment policy the Bank's management evaluates the results of transactions with these securities based on their fair value.

Debt securities of this category were repaid in January 2016.

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

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

9 Due from banks

In thousands of hryvnias	**2016**	**2015**
Guarantee deposits	13,534	4,097
Loans due from banks	28,400	-
Total due from banks	**41,934**	**4,097**

Guarantee deposits include assets placed mostly as guarantee deposits for card settlements and transfers, as well as a documentary transaction. Loans due from banks are short-term loans to other banks with initial term of payment over 90 days.

Amounts due from banks are not collateralised. The credit quality of due from banks outstanding as at 31 December 2016 may be summarised based on Moody's ratings as follows:

In thousands of hryvnias	**Loans due from banks**	**Guarantee deposits**	**Total**
Neither past due nor impaired			
- A2 rated	-	9,891	9,891
- unrated	28,400	3,643	32,043
Total due from banks	**28,400**	**13,534**	**41,934**

The credit quality of due from banks outstanding as at 31 December 2015 is 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**

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	**2016**	**2015**
Corporate loans	3,718,217	2,995,852
Loans to individuals - car and consumer loans	1,955,544	1,170,505
Loans to individuals - mortgage loans	700,593	622,619
Less: provision for loan impairment	(779,758)	(649,296)
Total loans and advances to customers	**5,594,596**	**4,139,680**

The total gross amount of car loans is UAH 1,654,424 thousand (as at 31 December 2015: UAH 1,046,437 thousand).

Movements in the provision for loan impairment during 2016 are as follows:

In thousands of hryvnias	**Corporate loans**	**Car and consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment as at 1 January 2016	**311,260**	**164,229**	**173,807**	**649,296**
Provision for loan impairment during the year	72,547	59,935	62,154	194,636
Loans and advances to customers sold and forgiven during the year	(65,012)	(2,076)	(5,157)	(72,245)
Loans and advances to customers written off during the year as uncollectible	(218)	-	-	(218)
Foreign currency translation differences	(4,098)	1,036	11,351	8,289
Provision for loan impairment as at 31 December 2016	**314,479**	**223,124**	**242,155**	**779,758**

The provision for loan impairment for 2016 differs from the amount recognised in profit or loss for the year due to recovery of loans in the total amount of UAH 4,683 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 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	**193,288**	**106,915**	**145,448**	**445,651**
Provision for loan impairment during the year	111,890	58,906	33,289	204,085
Loans and advances to customers sold and forgiven during the year	(3,229)	(1,402)	(6,120)	(10,751)
Loans and advances to customers written off during the year as uncollectible	(40)	(94)	-	(134)
Interests accrued on impaired loans	(8,699)	(2,902)	(6,178)	(17,779)
Foreign currency translation differences	18,050	2,806	7,368	28,224
Provision for loan impairment as at 31 December 2015	**311,260**	**164,229**	**173,807**	**649,296**

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.

The amount of movement in the provision shown in the table above in respect of loans sold and forgiven during the year includes the amount of the provision reversed.

10 Loans and advances to customers (continued)

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

	2016		2015	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	2,656,137	42	1,793,124	37
Agriculture and food processing	1,318,180	21	980,306	21
Trade	1,088,050	17	844,252	18
Manufacturing	810,928	13	798,530	17
Other services	286,140	4	214,222	5
Transportation	56,037	1	44,877	1
Real estate and construction	35,381	1	63,216	1
Mining	20,231	-	20,172	0
Hotels	4,864	-	2,221	0
Financial services	3,505	-	5,901	0
Health resorts	2,844	-	1,350	0
Sports and recreation services	226	-	315	-
Other	91,831	1	20,490	-
Total loans and advances to customers (gross)	**6,374,354**	**100**	**4,788,976**	**100**

At 31 December 2016, the total gross exposure of top 10 borrowers of the Bank was UAH 735,819 thousand (31 December 2015: UAH 885,410 thousand), or 12% of the gross loan portfolio (31 December 2015: 18% of the gross loan portfolio).

As at 31 December 2016, loans and advances to customers in the amount of UAH 124,463 thousand (31 December 2015: UAH 72,623 thousand) were secured by deposits in the amount of UAH 157,990 thousand (31 December 2015: UAH 132,346 thousand). See Note 18.

Information on collateral as at 31 December 2016 is summarised below:

In thousands of hryvnias	**Corporate loans**	**Car and consumer loans**	**Mortgage loans**	**Total**
Unsecured loans	370,609	534,162	189,311	1,094,082
Loans secured by:				
- cash deposits	123,864	598	-	124,462
- residential real estate	61,112	866	456,644	518,622
- other real estate	1,648,171	1,490	44,724	1,694,385
- other assets	1,514,461	1,418,428	9,914	2,942,803
Total loans and advances to customers (gross)	**3,718,217**	**1,955,544**	**700,593**	**6,374,354**

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	**276,764**	**231,022**	**180,437**	**688,223**
Loans secured by:				
- cash deposits	72,130	493	-	72,623
- residential real estate	55,275	1,199	385,596	442,070
- other real estate	1,510,018	-	49,047	1,559,065
- other assets	1,081,665	937,791	7,539	2,026,995
Total loans and advances to customers (gross)	**2,995,852**	**1,170,505**	**622,619**	**4,788,976**

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 2016 is presented below:

In thousands of hryvnias	**Corporate loans**	**Car and consumer loans**	**Mortgage loans**	**Total**
Neither past due nor impaired				
- High grade	2,312,624	1,215,444	205,917	3,733,985
- Standard grade	992,879	479,085	164,862	1,636,826
- Sub-standard grade	21,130	44,756	12,979	78,865
Total neither past due nor impaired	**3,326,633**	**1,739,285**	**383,758**	**5,449,676**
Past due but not impaired				
- less than 30 days overdue	2,078	23,814	2,978	28,870
- 30 to 90 days overdue	3,371	11,247	5,300	19,918
- 91 to 180 days overdue	814	209	281	1,304
- 181 to 360 days overdue	398	191	-	589
- over 360 days overdue	71	908	2,098	3,077
Total past due, but not impaired	**6,732**	**36,369**	**10,657**	**53,758**
Loans determined to be impaired				
- not yet past due	182,493	7,421	56,920	246,834
- less than 30 days overdue	1,816	1,026	515	3,357
- 30 to 90 days overdue	3,600	1,134	12,980	17,714
- 91 to 180 days overdue	22,871	8,017	6,959	37,847
- 181 to 360 days overdue	2,744	14,461	11,074	28,279
- over 360 days overdue	171,328	147,831	217,730	536,889
Total impaired loans	**384,852**	**179,890**	**306,178**	**870,920**
Less provision for impairment	**(314,479)**	**(223,124)**	**(242,155)**	**(779,758)**
Total loans and advances to customers	**3,403,738**	**1,732,420**	**458,438**	**5,594,596**

The Bank 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 Bank 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 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	16,748	9,119	7,577	33,444
Total neither past due nor impaired	**2,355,100**	**982,570**	**306,880**	**3,644,550**
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 determined to be impaired				
- 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	24,280	30,756	32,007	87,043
- over 360 days overdue	162,775	119,512	165,406	447,693
Total impaired loans	**597,592**	**169,797**	**270,471**	**1,037,860**
Less provision for impairment	**(311,260)**	**(164,229)**	**(173,807)**	**(649,296)**
Total loans and advances to customers	**2,684,592**	**1,006,276**	**448,812**	**4,139,680**

The Bank 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 Bank'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 its carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements equal to their carrying value or are lower than their carrying value ("under-collateralised assets"). The analysis below covers only the individually impaired loans.

The effect of collateral on individually impaired loans as at 31 December 2016 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	36,966	61,944	143,005	122,420
Mortgage loans	10,979	18,483	62,331	50,019
Car and consumer loans	-	-	1,391	1,200
Total	**47,945**	**80,427**	**206,727**	**173,639**

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	304,385	220,745
Mortgage loans	57,321	105,135	84,021	75,868
Car and consumer loans	1,955	4,088	537	527
Total	**196,240**	**396,958**	**388,943**	**297,140**

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 once a year in line with the significant market changes in value for real estate or for other pledged assets in accordance with the Bank'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 Bank 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 Bank according to the legislation.

The Bank'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.

The Bank 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 Bank'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.

Included to loans are finance lease receivables. The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2016 (as at 31 December 2015: there were no finance lease contracts):

In thousands of hryvnias	Gross investments in lease	Present value of minimal lease payments	Unrealized financial income
Finance lease receivables			
- Less than 1 year	5,746	2,325	3,421
- from 1 to 5 years	15,133	6,585	8,548
- over 5 years	4,155	2,710	1,445
Less provision for impairment	**(209)**	**(209)**	**-**
Total after deduction of provision for impairment	**24,825**	**11,411**	**13,414**

10 Loans and advances to customers (continued)

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

In thousands of hryvnias	2016	2015
In Donetsk and Lugansk regions		
- loan indebtedness	90,252	98,693
- loan loss provision	(86,079)	(89,256)
- loans after impairment	4,173	9,437
In AR Crimea		
- loan indebtedness	72,225	72,369
- loan loss provision	(71,662)	(71,413)
- loans after impairment	563	956

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	2016	2015
Ukrainian government bonds	1,435,825	785,146
Corporate shares	30	30
Total investment securities available-for-sale	**1,435,855**	**785,176**

As at 31 December 2016, sovereign credit rating of Ukraine assigned by Standard & Poor's is B- (31 December 2015: B-).

Analysis by credit quality of debt securities outstanding at 31 December 2016 is as follows:

In thousands of hryvnias	Ukrainian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- Ukrainian government	1,435,825		1,435,825
Total neither past due nor impaired	1,435,825	-	1,435,825
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	**1,435,825**	**-**	**1,435,825**

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**

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

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

12 Investment securities held-to-maturity

In thousands of hryvnias	**2016**	**2015**
Ukrainian government bonds	1,712,872	1,049,724
Total investment securities held-to-maturity	**1,712,872**	**1,049,724**

As at 31 December 2016, sovereign credit rating of Ukraine assigned by Standard & Poor's is B- (31 December 2015: B-).

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**	**2016**	**2015**
Investment property at fair value as at 1 January		**8,928**	**8,928**
Transfer from real estate occupied by the Bank	14	4,037	-
Transfer to real estate occupied by the Bank	14	(2,228)	-
Other adjustments of value		(26)	-
Investment property at fair value as at 31 December		**10,711**	**8,928**

As at 31 December 2016 and 31 December 2015, investment properties include commercial premises held by the Bank to earn rental income, which were transferred from premises and leasehold improvements.

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

As at 31 December 2016 and 31 December 2015, fair value of the Bank'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 significant as at 31 December 2016 and 31 December 2015.

14 Premises, leasehold improvements, equipment and intangible assets

In thousands of hryvnias	Note	Premises and leasehold improve-ments	Computers and equipment	Security systems, furniture and fixtures	Motor vehicles	Constru-ction in-progress	Total premises, leasehold improve-ments and equipment	Computer software licences	Total
Cost as at 1 January 2015		312,374	212,356	87,485	18,791	4,050	635,056	99,561	734,617
Accumulated depreciation and amortisation		(27,280)	(125,838)	(48,124)	(9,088)	-	(210,330)	(51,085)	(261,415)
Net book value as at 1 January 2015		285,094	86,518	39,361	9,703	4,050	424,726	48,476	473,202
Additions		8,411	33,112	19,343	5,331	6,815	73,012	28,471	101,483
Transfers to other category		(1,453)	1,835	801	906	(3,069)	(980)	980	-
Disposal – cost		(508)	(9,124)	(4,674)	(2,148)	(981)	(17,435)	(157)	(17,592)
Disposal – accumulated depreciation	27	12	9,007	3,947	2,025	-	14,991	157	15,148
Depreciation and amortisation charge	27	(7,030)	(20,206)	(7,935)	(2,447)	-	(37,618)	(18,034)	(55,652)
Net book value as at 31 December 2015		284,526	101,142	50,843	13,370	6,815	456,696	59,893	516,589
Cost as at 31 December 2015		318,824	238,179	102,955	22,880	6,815	689,653	128,855	818,508
Accumulated depreciationand amortisation		(34,298)	(137,037)	(52,112)	(9,510)	-	(232,957)	(68,962)	(301,919)
Net book value as at 31 December 2015		284,526	101,142	50,843	13,370	6,815	456,696	59,893	516,589
Additions		12,622	106,762	48,196	8,232	29,474	205,286	27,766	233,052
Transfers to other category		-	(5,421)	12,236	-	(6,815)	-	-	-
Transfer to other category - accumulated depreciation		-	5,391	(5,391)	-	-	-	-	-
Disposal – cost		(4,068)	(4,340)	(9,166)	(1,617)	-	(19,191)	(3,256)	(22,447)
Disposal – accumulated depreciation		3,284	4,266	7,026	1,283	-	15,859	3,121	18,980
Depreciation and amortisation charge	27	(10,691)	(25,730)	(17,933)	(3,358)	-	(57,712)	(26,195)	(83,907)
Transfers to investment property	13	(4,037)	-	-	-	-	(4,037)	-	(4,037)
Transfers from investment property	13	2,228	-	-	-	-	2,228	-	2,228
Net book value as at 31 December 2016		283,864	182,070	85,811	17,910	29,474	599,129	61,329	660,458
Cost as at 31 December 2016		325,569	335,180	154,221	29,495	29,474	873,939	153,365	1,027,304
Accumulated depreciation and amortisation		(41,705)	(153,110)	(68,410)	(11,585)	-	(274,810)	(92,036)	(366,846)
Net book value as at 31 December 2016		283,864	182,070	85,811	17,910	29,474	599,129	61,329	660,458

14 Premises, leasehold improvements, equipment and intangible assets (continued)

As at 31 December 2016, the cost of fully depreciated equipment that is still in use is UAH 77,484 thousand (31 December 2015: UAH 64,723 thousand), and the cost of fully amortised intangible assets that are still in use is UAH 22,866 thousand (31 December 2015: UAH 15,484 thousand).

As at 31 December 2016 and 31 December 2015, the Bank has no premises and equipment of which ownership, use and disposal are limited by laws of Ukraine. The Bank 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 Bank.

The Bank's premises are measured at market value as at 31 December 2016. Premises were not reassessed, as the difference between carrying value and market value of the premises was not significant as at 31 December 2016 and 31 December 2015. The valuation was based on a comparative sales method and was carried out by the internal valuer who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. For each real estate property from four to five comparables were selected based on the following criteria: location, type, condition and size. Adjustments were applied for a price representing an offer rather than an actual transaction (bargain discount), location, size, floor and condition and other adjustments. Bargain discount applied by the internal valuer was usually in the range from 10% to 15%. Other adjustments applied by the internal valuer were usually in the range from 10% to 15%. The appraiser applied 100% weight to the market approach for all properties.

The fair value of the Bank's buildings are categorised into Level 3 of the fair value hierarchy.

If the assets were recognized at cost less depreciation, the carrying value of the premises and leasehold improvements would amount to UAH 159,181 thousand as at 31 December 2016 (31 December 2015: UAH 154,801 thousand).

15 Other financial assets

In thousands of hryvnias	**2016**	**2015**
Receivables from operations with customers and banks	20,535	20,485
Accrued income receivable	11,922	13,446
Receivables from operations with plastic cards	6,705	5,465
Non-confirmed cash	4,780	1,030
Provision for impairment	**(13,831)**	**(9,830)**
Total other financial assets	**30,111**	**30,596**

Movements in the provision for impairment of other financial assets during 2016 are as follows:

:

In thousands of hryvnias	**Accrued income receivable**	**Non-confirmed cash**	**Total**
Provision for impairment as at 1 January 2016	**8,800**	**1,030**	**9,830**
Provision for impairment during the year	663	3,733	4,396
Amounts written off during the year as uncollectible	(412)	-	(412)
Exchange rate differences	-	17	17
Provision for impairment as at 31 December 2016	**9,051**	**4,780**	**13,831**

15 Other financial assets (continued)

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	Non-confirmed cash	Total
Provision for impairment as at 1 January 2015	**5,082**	**3,000**	**-**	**8,082**
Provision for impairment during the year	4,386	-	1,030	5,416
Amounts written off during the year as uncollectible	(668)	(3,000)	-	(3,668)
Provision for impairment as at 31 December 2015	**8,800**	**-**	**1,030**	**9,830**

Analysis by credit quality of other financial assets at 31 December 2016 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Non-confirmed cash	Total
Neither past due nor impaired	2,429	20,535	6,705	-	**29,669**
Total neither past due nor impaired	**2,429**	**20,535**	**6,705**	-	**29,669**
Receivables individually determined to be impaired:					
- not overdue	-	-	-	4,780	4,780
- less than 30 days overdue	425	-	-	-	425
- 31 to 90 days overdue	273	-	-	-	273
- 91 to 180 days overdue	328	-	-	-	328
- 181 to 360 days overdue	793	-	-	-	793
- over 360 days overdue	7,674	-	-	-	7,674
Total individually impaired (gross)	9,493	-	-	4,780	14,273
Less impairment provision	**(9,051)**	**-**	**-**	**(4,780)**	**(13,831)**
Total other financial assets	**2,871**	**20,535**	**6,705**	**-**	**30,111**

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	Non-confirmed cash	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:					
- not overdue	-	-	-	1,030	1,030
- 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	-	-	1,030	9,545
Less impairment provision	**(8,800)**	**-**	**-**	**(1,030)**	**(9,830)**
Total other financial assets	**4,646**	**20,485**	**5,465**	**-**	**30,596**

The primary factors that the Bank considers in determining whether a receivable is impaired are its overdue status. As a result, the Bank 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	2016	2015
Prepayments for goods and construction in progress	67,751	15,237
Prepaid expenses	26,515	28,549
Prepayment for services	9,058	5,876
Inventory	6,010	5,897
Repossessed collateral and assets for sale	1,712	6,380
Receivables from settlements with employees and other	1,711	1,976
Prepaid taxes other than income tax	293	5,413
Provision for impairment of other non-financial assets	(8,449)	(7,944)
Total other non-financial assets	**104,601**	**61,384**

17 Due to banks

In thousands of hryvnias	2016	2015
Correspondent accounts and overnight placements of other banks	919,366	221,705
Term deposits and loans from other banks	126,610	936,034
Total due to banks	**1,045,976**	**1,157,739**

As at 31 December 2016, term deposits and loans include UAH 81,573 thousand (31 December 2015: UAH 936,034 thousand) received from PKO BP S.A. and correspondent accounts and overnight deposits of other banks include UAH 624,408 thousand (31 December 2015: UAH 141,647 thousand) of balances on accounts of PKO BP S.A.

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	2016	2015
Legal entities		
- Current/settlement accounts	3,046,271	1,987,240
- Term deposits	1,245,031	954,038
Individuals		
- Current/demand accounts	1,107,119	721,963
- Term deposits	2,774,543	1,991,096
Total customer accounts	**8,172,964**	**5,654,337**

Economic sector concentrations within customer accounts are as follows:

	2016		2015	
In thousands of hryvnias	Amount	%	Amount	%
Individuals	3,881,662	48	2,713,059	48
Manufacturing	1,017,188	12	892,488	16
Trade	768,940	9	509,930	9
Other services	721,936	9	462,913	5
Financial services	483,575	6	305,888	8
Real estate	391,294	5	184,276	3
Agriculture	165,613	2	132,403	3
Transport and communication	130,883	2	101,867	2
Other	611,873	7	351,513	6
Total customer accounts	**8,172,964**	**100**	**5,654,337**	**100**

18 Customer accounts (continued)

As at 31 December 2016, the Bank had 74 customers (31 December 2015: 45 customers) with balances above UAH 10,000 thousand each. The aggregate balance on accounts of these customers was UAH 1,809,040 thousand (31 December 2015: UAH 1,163,168 thousand), or 22% (31 December 2015: 21%) of total customer accounts.

As at 31 December 2016, included in customer accounts are deposits of UAH 6,459 thousand (31 December 2015: UAH 3,488 thousand) held as collateral for guarantees issued. Refer to Note 33.

As at 31 December 2016, included in current accounts of individuals are prepayments at loan agreements totalling UAH 60,337 thousand that are not due (31 December 2015: UAH 37,875 thousand).

As at 31 December 2016, included in customer accounts are deposits totalling UAH 157,990 thousand (31 December 2015: UAH 132,346 thousand) held as collateral for loans granted to customers totalling UAH 124,463 thousand (31 December 2015: UAH 72,623 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**	**2016**	**2015**
Settlements		22,918	20,681
Other accrued liabilities		18,655	14,185
Resources of the Deposit Guarantee Fund for payment of compensations		3,105	11,833
Provision for credit related commitments	33	230	97
Other		44	43
Total other financial liabilities		**44,952**	**46,839**

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	**2016**	**2015**
Accrued employee benefit costs	55,235	30,825
Deferred income	22,570	22,451
Amounts payable to Deposit Guarantee Fund	6,990	4,329
Taxes payable, other than income tax	6,196	6,715
Other	3,930	2,147
Total other non-financial liabilities	**94,921**	**66,467**

Expenses for provision at legal claims against the bank amount to UAH 2,606 thousand in 2016 (2015: UAH 844 thousand).

21 Subordinated debt

In thousands of hryvnias	Effective interest rate 2016	Carrying value 2016	Carrying value 2015
USD 20,000 thousand, floating rate, due in 2017	1.53%	557,904	516,946
Total subordinated debt		**557,904**	**516,946**

During 2009, the Bank received from PKO BP S.A. a subordinated debt in the amount of USD 20,000 thousand 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.

On 18 May 2010, the interest rate was reduced 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 Bank 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 was changed to 1.07% p.a. (USD LIBOR for 12-month interbank deposits as at 1 July 2012). According to Appendix to subordinated loan agreement this rate will be applied until the Bank becomes profitable and other contractual terms are fulfilled. During this period, interest payment is suspended. 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.

In 2016 all terms that caused interest rate reduction and suspension of interest payment have not been fulfilled (the Bank became profitable and fulfilled other contractual terms according to Appendix to the agreement). On 4 May 2016 the Bank paid interest accrued for the period from 1 July 2012 till 30 April 2016 and renewed accrual and payment of interest at 1-month Libor+3,75% p.a.

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 as at 31 December 2015. 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.

During 2015 transactions with the shareholder included write-off of unamortized premium amounting to UAH 12,941 thousand which arose from revision of effective interest rate under amended terms of the contract in prior periods.

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 2015	191,896,946,916	1,918,969	1,918,969
At 31 December 2015	191,896,946,916	1,918,969	1,918,969
At 31 December 2016	224,896,946,916	2,248,969	2,248,969

The share capital of the Bank amounts to UAH 2,248,969 thousand (2015: UAH 1,918,969 thousand).

As at 31 December 2016, the total number of issued shares, at which the reports on placement results were registered comprised 224,896,946,916 (31 December 2015: 191,896,946,916) ordinary shares with nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights.

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.

On 24 May 2016 the new Bank’s Charter was registered with the Unified State Register of Legal Entities, Private Entrepreneurs and Public Unions. This new Charter was approved by the Shareholders’ Meeting on 27 April 2016.

The new Charter was approved due to increase of the Bank’s share capital from UAH 1,918,969 thousand to UAH 2,248,969 thousand.

The National Committee on Securities and Stock Exchange registered the relevant report on the results placing of new issue shares.

As at 31 December 2016 all ordinary shares were fully paid and registered.

The Bank’s shareholders structure is presented below:

Shareholder	**2016**	**2015**
PKO BP S.A.	99.63%	99.57%
Other (resident and non-resident shareholders)	0.37%	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 0.000006% 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 2015				
Investment securities available-for-sale:				
- Net change in fair value of investment securities available-for-sale		(11,350)	-	(11,350)
- Net change in fair value of investment securities available-for-sale transferred to profit or loss		21,913	-	21,913
Income tax recorded directly in other comprehensive income	28	-	12	12
Total other comprehensive income		**10,563**	**12**	**10,575**
Year ended 31 December 2016				
Investment securities available-for-sale:				
- Net change in fair value of investment securities available-for-sale		(13,731)	-	(13,731)
- Net change in fair value of investment securities available-for-sale transferred to profit or loss		7,806	-	7,806
Revaluation of premises:				
- Revaluation of items which were transferred from owner occupied property to investment property on the date of change in use		-	73	73
Total other comprehensive loss		**(5,925)**	**73**	**(5,852)**

24 Interest income and expense

In thousands of hryvnias	2016	2015
Interest income		
Loans and advances to legal entities	556,077	375,405
Loans and advances to individuals	381,903	232,212
Investment securities available-for-sale	155,439	103,300
Investment securities held-to-maturity	147,840	96,640
Deposit certificates issued by the NBU	32,797	48,748
Due from banks	12,311	16,673
Securities at fair value through profit or loss	209	6,358
Total interest income	**1,286,576**	**879,336**
Interest expense		
Deposits from individuals	254,722	194,880
Deposits from legal entities	116,732	80,236
Due to banks	28,980	30,279
Subordinated debt	8,077	9,752
Amounts due to the National Bank of Ukraine	-	76
Total interest expense	**408,511**	**315,223**
Net interest income	**878,065**	**564,113**

Interest income on impaired financial assets amounts to UAH 73,244 thousand for 2016 (2015: UAH 60,546 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	2016	2015
Fee and commission income		
Cash and settlement transactions	264,737	210,746
Purchase and sale of foreign currency	67,969	48,755
Agency fee from insurance companies	5,122	18,931
Guarantees issued and other trade finance transactions	4,485	2,595
Other	3,813	2,820
Total fee and commission income	**346,126**	**283,847**
Fee and commission expense		
Cash and settlement transactions	60,886	34,192
Guarantees received and other trade finance transactions	1,527	784
Transactions with securities	391	486
Other	4	353
Total fee and commission expense	**62,808**	**35,815**
Net fee and commission income	**283,318**	**248,032**

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	2016	2015
Penalties and fines received	4,381	123
Operating lease	2,339	2,311
Balances with expired statute of limitations	1,431	3,963
Transactions on construction financing	1,292	1,776
Support of operations from partner companies	1,106	1,512
Reimbursement of legal expenses	848	699
Proceedings from sale of property and equipment	843	1,464
Income from insurance operations	166	506
Other	713	1,204
Total other operating income	**13,119**	**13,558**

27 Administrative and other operating expenses

In thousands of hryvnias	Note	2016	2015
Staff costs		292,267	234,702
Repair and maintenance of premises and equipment and software maintenance		90,694	59,843
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	14	83,907	55,652
Property operating lease expense		64,453	49,373
Utilities		34,105	25,923
Communication		23,920	23,089
Contributions to Individuals' Deposit Guarantee Fund		23,004	14,706
Professional services		15,346	12,687
Advertising and marketing		14,260	8,288
Security services		12,165	9,603
Taxes, other than income tax		7,303	6,322
Business trips		5,684	3,992
Charity		876	530
Other		37,311	35,775
Total administrative and other operating expenses		**705,295**	**540,485**

Staff costs include the unified social tax in the amount of UAH 43,764 thousand (2015: UAH 53,269 thousand). Contribution to the state pension fund comprises 78.56% of the unified social tax amounting to UAH 34,398 thousand (2015: 90% - UAH 47,942 thousand). No discretionary pensions or other post-employment benefits are provided by the Bank.

28 Income tax

(a) Components of income tax expense

Components of income tax expense are presented as follows:

In thousands of hryvnias	**2016**	**2015**
Current tax	69,508	17,319
Deferred tax	5,625	13,025
Income tax expense for the year	**75,133**	**30,344**

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

The Bank's applicable income tax rate is 18% (2015: 18%). Reconciliation of expected and actual income tax expense is presented as follows:

In thousands of hryvnias	**2016**	**2015**
Profit before tax	**338,904**	**142,793**
Expected income tax benefit at applicable tax rate (2016: 18%; 2015: 18%)	61,003	25,703
Tax effect of non-deductible items and non-taxable items:		
- Reconciliation of tax liabilities of previous periods	6,945	-
- Debt forgiveness expenses not recognized for tax purposes	5,123	-
- Effect of change in stand to determination of temporary differences and other	2,062	4,641
Income tax expense for the year	**75,133**	**30,344**

(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	**1 January 2016**	**Recognized in profit or loss for the year**	**31 December 2016**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	15,314	1,814	17,128
Provisions for impairment	14,482	(6,228)	8,254
Estimation of fair valuation of securities	2,422	(1,211)	1,211
Net deferred tax asset	**32,218**	**(5,625)**	**26,593**

28 Income tax (continued)

In thousands of hryvnias	1 January 2015	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	13,702	1,600	12	15,314
Provision for loan impairment	19,375	(4,893)	-	14,482
Unamortised discounts/premiums	3,756	(3,756)	-	-
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)	-	-
Other	(261)	261	-	-
Net deferred tax asset	**45,231**	(13,025)	12	**32,218**
Recognised deferred tax asset	45,493	-	-	32,218
Recognised deferred tax liability	(261)	-	-	-
Net deferred tax asset	**45,232**	**(13,025)**	**12**	**32,218**

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.

29 Basic and diluted earnings/(loss) per share

The Bank prepared its consolidated financial statements and separate financial statements as at and for the year ended 31 December 2016 and 31 December 2015 in accordance with IFRS 10 "Consolidated financial statements" and IAS 27 "Separate financial statements". Basic earnings/(loss) per share is calculated and disclosed based on the IFRS consolidated financial statements. During the reporting period, the Bank had no dilutive financial instruments. Therefore, basic earnings/(loss) per share is equal to diluted earnings/(loss) per share.

Earnings/(loss) per share is calculated as follows:

In thousands of hryvnias	2016	2015
Aggregate earnings/(loss) for the year attributable to ordinary shareholders	201,050	(85,582)
Weighted average number of ordinary shares (thousands)	224,896,947	200,938,042
Basic and diluted earnings/(loss) per share attributable to shareholders based on the consolidated financial statements (UAH per share)	**0.0009**	**(0.0004)**

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 Bank's performance. The CODM functions are performed by Management Board.

(a) Reportable segments

The Bank has the following three key reportable segments:

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

(b) Factors used to identify reportable segments

The Bank's segments represent strategic business units targeting 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 and IFRS requirements.

The following approaches are applied to segment analysis:

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

For operating decision making 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 currencies and maturities. 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 2015).

30 Segment analysis (continued)

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

Reportable segments for the year ended 31 December 2016 are presented as follows:

In thousands of hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated items**	**Total**
Assets	2,198,001	3,423,302	4,572,358	810,931	**11,004,592**
Liabilities	3,883,338	4,190,550	1,728,850	113,979	**9,916,717**
Capital expenditures	**-**	**-**	**-**	233,052	**233,052**

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**
2016						
External revenues						
- Interest income	381,903	556,077	348,596	-		1,286,576
- Fee and commission income	148,619	190,610	6,897	-		346,126
- Other operating income	6,856	1,124	-	5,139		13,119
- Gains less losses from trading in foreign currencies	27,123	-	8,515	24,351	-	59,989
- Gains less losses from disposal of investment securities available-for-sale	-	-	6,572	-	-	6,572
- Gains less losses from securities at fair value through profit or loss	-	-	1,513	-	-	1,513
Revenues from other segments						
- Interest income	327,039	220,716	766,700	-	(1,314,455)	**-**
Total revenues	**891,540**	**968,527**	**1,138,793**	**29,490**	**(1,314,455)**	**1,713,895**
Interest expense	(586,972)	(551,182)	(584,812)	-	1,314,455	(408,511)
Provision for loan impairment	(121,041)	(68,912)	-	-	-	(189,953)
Provision for other losses and credit related commitments	(2,606)	(133)	-	-	-	(2,739)
Fee and commission expense	(46,894)	(1,527)	(14,387)	-	-	(62,808)
Net foreign exchange loss	-	-	-	(306)	-	(306)
Administrative and other operating expenses and provisions for other assets	(407,717)	(256,382)	(45,774)	(801)	-	(710,674)
Segment result	**(273,690)**	**90,391**	**493,820**	**28,383**	**-**	**338,904**

30 Segment analysis (continued)

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	2,707,561	3,464,651	638,077	**8,272,284**
Liabilities	2,714,084	2,962,806	1,674,880	90,558	**7,442,328**
Capital expenditures	-	-	-	101,483	**101,483**

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	Unallo-cated items	Eliminations	Total
2015						
External revenues						
- Interest income	232,212	375,405	271,719	-	-	879,336
- Fee and commission income	120,834	158,995	4,018	-	-	283,847
- Other operating income	2,833	2,397	-	8,328		13,558
- Gains less losses from securities at fair value through profit or loss	-	-	83,220	-	-	83,220
- Gains less losses from trading in foreign currencies	46,655	-	(5,507)	23,521	-	64,669
- Gains from disposal of investment securities available-for-sale			1,490	-	-	1,490
- Gains from recovery of investment securities available-for-sale	-	-	388	-	-	388
Revenues from other segments						
- Interest income	247,407	152,351	553,821	-	(953,579)	**-**
Total revenues	**649,941**	**689,148**	**909,149**	**31,849**	**(953,579)**	**1,326,508**
Interest expense	(433,310)	(393,309)	(442,183)	-	953,579	(315,223)
Provision for loan impairment	(89,575)	(110,805)	-	-	-	(200,380)
Provision for other losses and credit related commitments	14	860	-	(1,030)	-	(156)
Fee and commission expense	(23,334)	(6,968)	(5,513)	-	-	(35,815)
Net foreign exchange loss	-	-	-	(85,178)	-	(85,178)
Administrative and operating expenses and provisions for other assets	(318,365)	(194,706)	(33,892)	-	-	(546,963)
Segment result	**(214,629)**	**(15,780)**	**427,561**	**(54,359)**	**-**	**142,793**

(e) Analysis of revenues by product and service

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

(f) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Bank 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 Bank's assets and liabilities.

(g) Major customers

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

31 Financial risk management

Risk management relates to financial risks, operational risks, and legal risks. Financial risks comprise 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 Bank 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 Bank'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 Bank 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 Bank established the following 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 Bank 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.

31 Financial risk management (continued)

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 Bank on a monthly basis.

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 2016, 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 8.21%, while the required ratio is up to 25% (31 December 2015: 14.17%).

As at 31 December 2016, large credit risks 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 0.00%, while the required ratio is up to 800% (31 December 2015: 35.67%).

Market risk. The Bank 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. 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 Bank 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 Bank evaluates and monitors levels of long and short foreign currency open positions using Ukrainian 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 on a daily basis. Respective reports are submitted to Asset, Liability and Tariff Management Committee (ALTCO) on a weekly basis.

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

	At 31 December 2016				**At 31 December 2015**			
In thousands of hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net**
USD	3,373,860	3,239,839	(148,908)	(14,887)	2,465,175	2,747,357	5,404	(276,778)
EUR	865,800	918,479	11,937	(40,742)	670,889	796,280	(25,699)	(151,090)
British pounds	6,220	6,162	-	58	9,544	9,291	-	253
Russian roubles	47,917	47,905	-	12	27,577	16,765	(10,719)	93
Other	99,634	99,812	5,602	5,424	84,266	75,810	(5,016)	3,440

The above analysis includes only 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 Bank's functional currency, with all other variables remaining constant:

	At 31 December 2016		At 31 December 2015	
In thousands of hryvnias	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
40% strengthening of US dollar (2015: 40% strengthening)	(4,883)	(4,883)	(90,783)	(90,783)
40% weakening of US dollar (2015: 40% weakening)	4,883	4,883	90,783	90,783
40% strengthening of Euro (2015: 40% strengthening)	(13,363)	(13,363)	(49,558)	(49,558)
40% weakening of Euro (2015: 40% weakening)	13,363	13,363	49,558	49,558
40% strengthening of Russian rouble (2015: 40% strengthening)	4	4	31	31
40% weakening of Russian rouble (2015: 40% weakening)	(4)	(4)	(31)	(31)
40% strengthening of other currencies (2015: 40% strengthening)	1,798	1,798	1,211	1,211
40% weakening of other currencies (2015: 40% weakening)	(1,798)	(1,798)	(1,211)	(1,211)

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

Interest rate risk. The Bank 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, profit for the year would have been UAH 14,253 thousand lower/higher as at 31 December 2016 (31 December 2015: UAH 9,649 thousand lower/higher), 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, profit for the year would have been UAH 7,607 thousand higher/lower as at 31 December 2016 (31 December 2015: UAH 5,188 thousand higher/lower), primarily due to increase/decrease in interest income on variable interest loans.

If interest rates on financial instruments denominated in UAH had been 200 basis points higher/lower, with all other variables remaining constant, profit for the year would have been UAH 42,663 thousand higher/lower as at 31 December 2016 (31 December 2015: UAH 29,594 thousand /lower/higher), due to increase/decrease in interest income on variable interest loans.

If interest rates had been 200 basis points lower/higher, other equity components would have been UAH 28,716 thousand lower/higher (31 December 2015: UAH 15,703 thousand lower/higher) primarily due to decrease/increase in fair value of investment securities available-for-sale.

31 Financial risk management (continued)

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

	2016				2015			
% pa	**UAH**	**USD**	**EUR**	**Other**	**UAH**	**USD**	**EUR**	**Other**
Assets								
Cash and cash equivalents								
- Interest bearing correspondent accounts with other banks	0%	0%	0%	5%	1%	0%	0%	6%
- Deposit certificates issued by the NBU	14%	-	-	-	20%	-	-	-
Securities at fair value through profit or loss	-	-	-	-	9%	-	-	-
Due from banks	14%	-	-	-	1%	-	-	-
Loans and advances to customers								
- at fixed rate	24%	10%	8%	9%	17%	6%	5%	-
- at variable rate	21%	9%	8%	-	22%	7%	8%	-
Debt investment securities available-for-sale	17%	7%	4%	-	17%	10%	-	-
Debt investment securities held-to-maturity	-	8%	-	-	-	11%	-	-
Liabilities								
Due to banks (at variable rate)	10%	7%	0%	0%	0%	3%	0%	0%
Customer accounts								
- current and settlement accounts	1%	0%	0%	0%	2%	0%	0%	0%
- term deposits	14%	2%	1%	-	16%	3%	3%	-
Subordinated debt	-	2%	-	-	-	1%	-	-

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 Bank has no assets or liabilities denominated in the corresponding currency. Information presented in the table relates to fixed rates, unless stated otherwise.

Other price risk. The Bank is exposed to early repayment risk due to providing fixed rate loans, including mortgages, which allow a borrower to early repay its loan. The Bank's current year result and equity as at the reporting date would not be significantly influenced by changes in early repayment volumes, 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.

31 Financial risk management (continued)

Geographical risk concentration. Geographical analysis of Bank's assets and liabilities at 31 December 2016 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Other	Total
Assets				
Cash and cash equivalents	833,219	496,349	49,784	**1,379,352**
Due from banks	31,938	9,891	105	**41,934**
Loans and advances to customers	5,593,798	31	767	**5,594,596**
Investment securities available-for-sale	1,435,855	-	-	**1,435,855**
Securities held-to-maturity	1,712,872			**1,712,872**
Other financial assets	30,107	2	2	**30,111**
Total financial assets	**9,637,789**	**506,273**	**50,658**	**10,194,720**
Non-financial assets	**805,258**	**2,389**	**2,225**	**809,872**
Total assets	**10,443,047**	**508,662**	**52,883**	**11,004,592**
Liabilities				
Due to banks	339,996	705,980	-	**1,045,976**
Customer accounts	8,022,759	125,515	24,690	**8,172,964**
Other financial liabilities	43,375	1,482	95	**44,952**
Subordinated debt	-	557,904	-	**557,904**
Total financial liabilities	**8,406,130**	**1,390,881**	**24,785**	**9,821,796**
Non-financial liabilities	**94,907**	**7**	**7**	**94,921**
Total liabilities	**8,501,037**	**1,390,888**	**24,792**	**9,916,717**
Net position	**1,942,010**	**(882,226)**	**28,091**	**1,087,875**
Credit related commitments	**46,248**	**9,920**		**56,168**

Assets, liabilities, and credit related commitments have been classified based on counterparty's resident country. 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 Bank'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	4,129,196	34	10,450	**4,139,680**
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	**7,249,044**	**345,933**	**39,310**	**7,634,287**
Non-financial assets	**637,371**	**412**	**214**	**637,997**
Total assets	**7,886,415**	**346,345**	**39,524**	**8,272,284**
Liabilities				
Due to banks	80,058	1,077,681	-	**1,157,739**
Customer accounts	5,555,834	89,548	8,955	**5,654,337**
Other financial liabilities	46,330	372	137	**46,839**
Subordinated debt	-	516,946	-	**516,946**
Total financial liabilities	**5,682,222**	**1,684,547**	**9,092**	**7,375,861**
Non-financial liabilities	**66,458**	**3**	**6**	**66,467**
Total liabilities	**5,748,680**	**1,684,550**	**9,098**	**7,442,328**
Net position	**2,137,735**	**(1,338,205)**	**30,426**	**829,956**
Credit related commitments	**44,024**	**13,112**	**-**	**57,136**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank 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 Bank 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 Bank 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 Bank also 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 Bank 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 2016, the ratio is 28%, with the required ratio being not less than 20% (31 December 2015: 47%, 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 2016, the ratio is 55%, with the required ratio being not less than 40% (31 December 2015: 70%, with the required ratio being not less than 40%).
- short-term liquidity ratio (N6) calculated as liquid assets to liabilities maturing within one year ratio. As at 31 December 2016, the ratio is 72%, with the required ratio being not less than 60% (31 December 2015: 80%, 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 tables below show Bank's liabilities by remaining contractual maturities. 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 2016 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	1,046,781	-	-	-	-	**1,046,781**
Customer accounts	5,289,889	1,088,131	1,772,453	128,772	35,870	**8,315,115**
Subordinated debt	4,062	3,839	558,130	-	-	**566,031**
Other financial liabilities	37,812	7,140	-	-	-	**44,952**
Credit related commitments	56,168	-	-	-	-	**56,168**
Spot and forward contracts						
- inflows	(246,104)	-	-	-	-	**(246,104)**
- outflows	249,982	-	-	-	-	**249,982**
Total potential future payments under financial liabilities	**6,438,590**	**1,099,110**	**2,330,583**	**128,772**	**35,870**	**10,032,925**

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 Bank does not generally expect the third party to draw funds under such agreements.

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	391,995	4,327	772,781	-	-	**1,169,103**
Customer accounts	3,511,187	879,480	1,305,214	38,638	34,815	**5,769,334**
Subordinated debt	-	-	-	526,454	-	**526,454**
Other financial liabilities	46,839	-	-	-	-	**46,839**
Credit related commitments	57,136	-	-	-	-	**57,136**
Spot and forward contracts						
- inflows	(77,992)	-	-	-	-	**(77,992)**
- outflows	(77,436)	-	-	-	-	**(77,436)**
Total potential future payments under financial liabilities	**4,006,601**	**883,807**	**2,077,995**	**565,092**	**34,815**	**7,568,310**

31 Financial risk management (continued)

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 withdrawal. 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 Bank does not use the above undiscounted cash flow maturity analysis to manage liquidity. Instead, the Bank monitors the following expected maturities as at 31 December 2016:

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**
At 31 December 2016						
Financial assets	1,948,167	596,734	2,364,722	4,850,710	434,387	10,194,720
Financial liabilities	(6,346,960)	(1,056,376)	(2,270,194)	(119,145)	(29,121)	(9,821,796)
Net liquidity gap based on expected maturities	**(4,398,793)**	**(459,642)**	**94,528**	**4,731,565**	**405,266**	**372,924**
Spot and forward contracts						
- inflows	246,104	-	-	-	-	246,104
- outflows	(249,982)	-	-	-	-	(249,982)
At 31 December 2015						
Financial assets	2,005,851	981,450	2,404,565	1,887,093	355,328	7,634,287
Financial liabilities	(3,923,711)	(847,176)	(2,028,152)	(549,350)	(27,472)	(7,375,861)
Net liquidity gap based on expected maturities	**(1,917,860)**	**134,274**	**376,413**	**1,337,743**	**327,856**	**258,426**
Spot and forward contracts						
- inflows	77,992	-	-	-	-	77,992
- outflows	(77,436)	-	-	-	-	(77,436)

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 Bank 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 Bank would indicate that these customer accounts provide a long-term and stable source of financing for the Bank.

The Bank has open credit line with its Parent company PKO Bank Polski SA for USD 30 million. Bank regularly uses this credit line for the replenishment of working capital and maintenance of the operational liquidity.

32 Capital management

The Bank 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 Bank's ability to continue as a going concern. The management believes that total capital under management of the Bank equals the amount of equity as shown in the statement of financial position. The amount of capital that the Bank managed as of 31 December 2016 was UAH 1,087,781 thousand (31 December 2015: UAH 829,956 thousand). The Bank's compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored on a ten day basis. Other objectives of capital management are evaluated annually.

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 would 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 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). Due to the registration these funds were disclosed in the Bank's share capital in May 2016.

During 2015 year transactions with the shareholder included write-off of unamortized premium on subordinated debt amounting to UAH 12,941 thousand which arose from revision of effective interest rate in prior periods.

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.

Should a 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 2016 and 31 December 2015, 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. As at 31 December 2016 and 31 December 2015 the Bank is in compliance with the statutory capital ratio requirement. 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	**2016**	**2015**
Primary capital	624,978	613,961
Additional capital	619,815	494,862
Total regulatory capital	**1,244,793**	**1,108,823**

32 Capital management (continued)

As at 31 December 2015, the Bank was not in compliance with requirements of p. 2.4, section II of the Instruction on regulation of banking activity in Ukraine, approved by Resolution No.368 of the NBU Management Board dated 28.08.2001, as amended, as regards the minimal regulatory capital. The Bank's regulatory capital was lower than its charter capital. The NBU cancelled this requirement in February 2016.

Given the cancelation of the above requirements, management believes that the risk of application of penalties to the Bank does not exist.

33 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank 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 2,929 thousand.

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 Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessment has been made in these separate financial statements.

Capital expenditure commitments. At 31 December 2016, the Bank had contractual capital expenditure commitments in respect of premises and equipment totalling UAH 3,801 thousand (31 December 2015: UAH 12,869 thousand) and in respect of intangible assets in the amount of UAH 2,003 thousand (31 December 2015: UAH 7,211 thousand).

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

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

Compliance with financial covenants. The Bank is subject to certain covenants related primarily to loans from other banks. Non-compliance with such covenants may result in negative consequences for the Bank 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 expired 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.

At the beginning of 2015, the ratio of loans past due over 30 days to gross loans and advances (before impairment) was 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 customers as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 Bank 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 Bank 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**	**2016**	**2015**
Guarantees issued		62,857	60,721
Less: Provision for credit related commitments	19	(230)	(97)
Less: Cash covered credit related commitments	18	(6,459)	(3,488)
Total credit related commitments		**56,168**	**57,136**

Credit related commitments are denominated in currencies as follows:

In thousands of hryvnias	**2016**	**2015**
Ukrainian hryvnias	26,044	41,284
EUR	30,124	13,504
US dollars	-	2,348
Total	**56,168**	**57,136**

At 31 December 2016, all commitments to extend credits are revocable and amount to UAH 1,255,754 thousand (31 December 2015: UAH 833,355 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.

34 Fair value disclosures (continued)

(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 follow:

	2016				2015			
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**
Investment securities available-for-sale								
- Ukrainian Government bonds	-	1,435,825	-	**1,435,825**	-	785,146	-	**785,146**
- Corporate shares			30	**30**	-	-	30	**30**
Non-financial assets								
- Premises	-	-	272,303	**272,303**	-	-	272,847	**272,847**
- Investment properties	-	-	10,711	**10,711**	-	-	8,928	**8,928**
Other financial assets								
- Currency forward contracts	-	-	-	-	-	93	-	93
Total assets recurring fair value measurements	**-**	**1,435,825**	**283,044**	**1,718,869**	**-**	**986,443**	**281,805**	**1,268,248**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements as at 31 December 2016:

In thousands of hryvnias	**Fair value**	**Valuation technique**	**Inputs used**
Assets at fair value			
Financial assets			
Investment securities available-for-sale			
- Ukrainian Government bonds	1,435,825	Market approach	Quoted prices on less active market
Total recurring fair value measurements at level 2	**1,435,825**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2016 and 2015.

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:

	2016				2015			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Assets								
Due from banks	**-**	**41,934**	**-**	**41,934**	**-**	**4,097**	**-**	**4,097**
- Guarantee deposits	-	13,534		**13,534**	-	4,097	-	4,097
- Loans due from banks	-	28,400		**28,400**	-	-	-	-
Loans and advances to customers	**-**	**-**	**5,582,618**	**5,594,596**	**-**	**-**	**4,040,274**	**4,139,680**
- Corporate loans		-	3,400,859	3,403,738	-	-	2,619,370	2,684,592
Retail loans – car and consumer loans	-	-	1,729,757	1,732,420	-	-	988,638	1,006,276
- Loans to individuals – mortgage loans	-	-	452,002	458,438	-	-	432,266	448,812
Investment securities held-to-maturity		**1,715,819**	**-**	**1,712,872**	**-**	**1,057,814**	**-**	**1,049,724**
Other financial assets	-	**30,111**	**-**	**30,111**	**-**	**30,596**	**-**	**30,596**
- Receivables from operations with clients and banks	-	20,535	-	20,535	-	20,485	-	20,485
- Accrued income	-	2,871	-	2,871	-	4,646	-	4,646
- Receivables from operations with plastic cards	-	6,705	-	6,705	-	5,465	-	5,465
Total	**-**	**1,787,864**	**5,582,618**	**7,379,513**	**-**	**1,092,507**	**4,040,274**	**5,224,097**

34 Fair value disclosures (continued)

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

In thousands of hryvnias	2016 Level 1	2016 Level 2	2016 Level 3	2016 Carrying amount	2015 Level 1	2015 Level 2	2015 Level 3	2015 Carrying amount
Liabilities								
Due to banks	**-**	**1,046,084**	**-**	**1,045,976**	**-**	**1,157,619**	**-**	**1,157,739**
- Correspondent accounts of other banks	-	919,366	-	919,366	-	221,705	-	221,705
- Term deposits and loans of other banks	-	126,718	-	126,610	-	935,914	-	936,034
Customer accounts	**-**	**8,120,426**	**-**	**8,172,964**	**-**	**5,599,702**	**-**	**5,654,337**
- Current/settlement accounts of legal entities	-	3,046,271	-	3,046,271	-	1,987,240	-	1,987,240
- Term deposits of legal entities	-	1,233,816	-	1,245,031	-	942,129	-	954,038
- Current accounts of individuals	-	1,107,119	-	1,107,119	-	721,963	-	721,963
- Term deposits of individuals	-	2,733,220	-	2,774,543	-	1,948,370	-	1,991,096
Other financial liabilities	**-**	**44,952**	**-**	**44,952**	**-**	**46,839**	**-**	**46,839**
- Funds in settlements	**-**	22,918	**-**	22,918	**-**	**20,681**	**-**	**20,681**
- Other accrued liabilities	-	18,655	-	18,655	-	14,185	-	14,185
- Resources of the Deposit Guarantee Fund for payment of compensations	-	3,105	-	3,105	-	11,833	-	11,833
- Provision for credit related commitments	-	230	-	230	-	97	-	97
- Other	-	44	-	44	-	43	-	43
Subordinated debt	**-**	**551,802**	**-**	**557,904**	**-**	**490,052**	**-**	**516,946**
Total	**-**	**9,763,264**	**-**	**9,821,796**	**-**	**7,294,212**	**-**	**7,375,861**

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 Bank used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Bank'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 Bank.

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 are further split into 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 2016:

In thousands of hryvnias	**Loans and receivables**	**Assets available-for-sale**	**Investment securities held-to-maturity**	**Total**
Assets				
Cash and cash equivalents	1,379,352	-	-	**1,379,352**
Due from banks				
- Guarantee deposits	13,534	-	-	**13,534**
Other banks loans	28,400	-		**28,400**
Loans and advances to customers				
- Corporate loans	3,403,738	-	-	**3,403,738**
- Loans to individuals – car and consumer loans	1,732,420	-	-	**1,732,420**
- Loans to individuals – mortgage loans	458,438	-	-	**458,438**
Investment securities available-for-sale	-	1,435,855	-	**1,435,855**
Investment securities held-to-maturity	-	-	1,712,872	**1,712,872**
Other financial assets	29,326	785		**30,111**
Total financial assets	**7,045,208**	**1,436,640**	**1,712,872**	**10,194,720**

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**	**Securities at fair value through profit or loss**	**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	2,684,592	-	-	-	**2,684,592**
- Loans to individuals – car and consumer loans	1,006,276	-	-	-	**1,006,276**
- Loans to individuals – mortgage loans	448,812	-	-	-	**448,812**
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	**5,598,090**	**785,176**	**201,297**	**1,049,724**	**7,634,287**

As at 31 December 2016 and 31 December 2015, all of the Bank'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 2016, the outstanding balances with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Correspondent accounts with other banks	37,094	-	-	-
Gross amount of loans and advances to customers (contractual interest rate: in hryvnias - 8.5%, in USD - 2.08%)	-	-	-	522
Provision for impairment of loans and advances to customers	-	-	-	(316)
Other assets	995	-	-	-
Correspondent accounts and overnight deposits of other banks	624,408	-	-	-
Term deposits and loans from other banks (contractual interest rate: in USD, max. 5.6%)	81,573	-	-	-
Customer accounts (contractual interest rates: in USD: min. - 0.01%, max - 3.76%; in EUR: 0.5%; in UAH - 2.5 % to 18.27%)		47,860	2,101	269
Subordinated debt (contractual interest rate: in USD – 4.5211%)	557,904	-	-	-
Other liabilities	142	373		14,705

The income and expense items on transactions with related parties for 2016 were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Interest income	-	-	-	24
Interest expense	(32,503)	(5,107)	(748)	(10)
Other income	-	29	-	1
Provision for impairment of loans and investments	-	-	-	267
Fee and commission income	21	50	127	3
Fee and commission expense	(1,268)	-	-	-
Other expenses	(1,702)	(4,638)	-	-

As at 31 December 2016, other rights and obligations with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Loan commitments received	740,592	-	-	-
Other commitments granted	27,459	-	-	67
Other rights received	17,584	-	-	-
Collateral received	170,248	-	-	1,676

Loan commitments received relate to the undrawn borrowing facilities received from the Parent Bank PKO Bank Polski S.A. denominated in USD and maturity in June 2019 with interest rate at the level of 1m LIBOR + 5%.

36 Related party transactions (continued)

Total amounts granted to related parties and repaid by them in 2016 are presented below:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**Key management personnel**
Amounts repaid by the related parties for the period	-	-	-	(122)

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

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Subsidiary**	**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 3.24%)	936,034	-	-	-
Customer accounts (contractual interest rates: in USD: min - 0.1%, max - 4%; in EUR: 0.5%; in UAH: min - 0.1 %, max - 16%)	-	32,546	7,472	186
Subordinated debt (contractual interest rate: in USD – 1.0695%)	516,946	-	-	-
Other liabilities	210	822	-	1,649

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**	**Subsidiary**	**Key management personnel**
Interest income	-	-	-	27
Interest expense	(38,017)	(4,232)	(1,050)	(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)	-	99	-
Other expenses	(5,085)	(6,703)	-	(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**	**Subsidiary**	**Key management personnel**
Loan commitments received	438,197	-	-	-
Other commitments granted	54,519	-	-	-
Other rights received	41,433	-	-	-
Collateral received	26,881	-	-	741

Loan commitments received relate to the undrawn borrowing facilities received from the Parent Bank PKO Bank Polski S.A. denominated in USD and maturity in June 2016 with interest rate at the level of 1m LIBOR + 3%.

36 Related party transactions (continued)

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	Subsidiary	Key management personnel
Amounts repaid by the related parties for the period	-	-	-	(89)

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, provided that the parent company would 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 (UAH 0.01 per share).

- during 2015 year transactions with the shareholder included write-off of unamortized premium on subordinated debt amounting to UAH 12,941 thousand which arose from revision of effective interest rate in prior periods.

Key management personnel remuneration amounts are presented below:

	2016		2015	
In thousands of hryvnias	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	19,062	1,155	20,150	684
- Bonuses	18,946	13,500	4,294	-
- Termination bonuses			824	756
Post-employment benefits:				
- State pension and social security costs	538	50	656	209
Total	**38,546**	**14,705**	**25,924**	**1,649**

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

Expenses for bonuses for 2016 include an accrued liability of UAH 13,500 thousand.

Approved for issue and signed on behalf of the Management Board on 7 March 2017.

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК» KredoBank 09807862 УКРАЇНА • М. ЛЬВІВ

G. Szatkowski
Chairman of the Management Board

V. Lototsky
Chief Accountant

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