

JSC “KREDOBANK”

**International Financial Reporting Standards
Separate Financial Statements and
Independent Auditor’s Report**

31 December 2015

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JSC KPMG Audit
32/2 Moskovska str., 17th floor,
01010 Kyiv,
Ukraine

Telephone +380 (44) 490 5507
Telefax +380 (44) 490 5508
Internet www.kpmg.ua

Independent Auditors' Report

To the Board of Directors
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 2015, 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 International Standards on Auditing adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No.320/1 dated 29 December 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

We draw attention to the fact that the corresponding figures presented, excluding the adjustments described in Note 3 to the separate financial statements, are based on the separate financial statements of the Bank as at and for the year ended 31 December 2014, which were audited by other auditors whose report dated 25 March 2015 expressed an unmodified opinion on those statements. As part of our audit of the separate financial statements of the Bank as at and for the year ended 31 December 2015, we have audited the adjustments described in Note 3 to the separate financial statements that were applied to restate the separate financial statements as at and for the year ended 31 December 2014. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the separate financial statements of the Bank as at and for the year ended 31 December 2014 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the separate financial statements as at and for the year ended 31 December 2014 taken as a whole. Our opinion is not qualified in respect of this matter.

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

JSC KPMG Audit

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

Parkhomenko Anna
 Deputy Director

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



9 March 2016

JSC «KREDOBANK»
Separate Statement of Financial Position

| <i>In thousands of hryvnias</i> | Note | 31 December 2015 | 31 December 2014 |
|--|-------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | 7 | 1,423,810 | 500,996 |
| Securities at fair value through profit or loss | 8 | 201,204 | 117,967 |
| Due from banks | 9 | 4,097 | 6,454 |
| Loans and advances to customers | 10 | 4,139,680 | 2,893,024 |
| Investment securities available for sale | 11 | 785,176 | 809,288 |
| Investment securities held to maturity | 12 | 1,049,724 | 859,398 |
| Current income tax prepayment | | 18,878 | 38,186 |
| Deferred income tax asset | 28 | 32,218 | 45,232 |
| Investment property | 13 | 8,928 | 8,928 |
| Intangible assets | 14 | 59,893 | 48,476 |
| Premises, leasehold improvements and equipment | 14 | 456,696 | 424,726 |
| Other financial assets | 15 | 30,596 | 15,168 |
| Other non-financial assets | 16 | 61,384 | 43,193 |
| Non-current assets held for sale | | - | 1,451 |
| Total assets | | 8,272,284 | 5,812,487 |
| Liabilities | | | |
| Due to banks | 17 | 1,157,739 | 1,186,506 |
| Customer accounts | 18 | 5,654,337 | 3,618,921 |
| Other financial liabilities | 19 | 46,839 | 24,015 |
| Other non-financial liabilities | 20 | 66,467 | 32,168 |
| Subordinated debt | 21 | 516,946 | 586,886 |
| Total liabilities | | 7,442,328 | 5,448,496 |
| Equity | | | |
| Share capital | 22 | 1,918,969 | 1,918,969 |
| Non-registered share capital | 21,22 | 330,000 | - |
| Accumulated deficit | | (1,564,062) | (1,693,893) |
| Revaluation reserve for premises | | 129,001 | 133,430 |
| Revaluation reserve for investment securities available for sale | | 16,048 | 5,485 |
| Total equity | | 829,956 | 363,991 |
| Total liabilities and equity | | 8,272,284 | 5,812,487 |

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


 G. Szatkowski
 Acting Chairman of the Management Board


 Vasyl Lototsky
 Chief Accountant



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

| <i>In thousands of hryvnias</i> | Note | 2015 | 2014 |
|--|--------|----------------|------------------|
| Interest income | 24 | 879,336 | 564,339 |
| Interest expense | 24 | (315,223) | (257,096) |
| Net interest income | | 564,113 | 307,243 |
| Provision for loan impairment | 10 | (200,380) | (259,512) |
| Net interest margin after provision for loan impairment | | 363,733 | 47,731 |
| Fee and commission income | 25 | 283,847 | 209,220 |
| Fee and commission expense | 25 | (35,815) | (20,876) |
| Gains less losses from trading in foreign currencies | | 64,669 | 55,798 |
| Revaluation of foreign currency position | | (85,178) | (103,806) |
| Gains from securities at fair value through profit or loss | | 83,220 | 48,956 |
| Gains from investment securities available for sale | | 1,490 | 3,772 |
| Impairment of investment securities available for sale | | 388 | (22,787) |
| Impairment of premises and equipment | 14 | - | (12,092) |
| Provision for other financial and non-financial assets | | (6,478) | (9,299) |
| Provision for credit related commitments and other losses | | (156) | (496) |
| Other operating income | 26 | 13,558 | 18,552 |
| Administrative and other operating expenses | 27 | (540,485) | (427,023) |
| Profit/(Loss) before tax | | 142,793 | (212,350) |
| Income tax (expense)/ benefit | 28 | (30,344) | 31,107 |
| Profit/(Loss) for the year | | 112,449 | (181,243) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Investment securities available for sale: | | | |
| - Gains less losses arising during the year | 23 | 10,563 | 22,496 |
| - Income tax recorded directly in other comprehensive income | 23, 28 | - | (1,701) |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Revaluation of premises and equipment: | | | |
| - Income tax recorded directly in other comprehensive income | 23, 28 | 12 | (579) |
| Other comprehensive income for the year | | 10,575 | 20,216 |
| Total comprehensive income/(loss) for the year | | 123,024 | (161,027) |
| Basic and diluted loss per share attributable to shareholders based on the consolidated statement, (UAH per share) | 29 | (0,0004) | (0,0015) |

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

G. Szatkowski
Acting Chairman of the Management Board



Vasyl Lototsky
Chief Accountant

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

JSC «KREDOBANK»
Separate Statement of Changes in Equity

| | | Share capital | Non-registered Share capital | Revaluation reserve for investment securities available for sale | Revaluation reserve for premises | Accumulated deficit | Total equity |
|--|-------|------------------|------------------------------|--|----------------------------------|---------------------|------------------|
| <i>In thousands of hryvnias</i> | Note | | | | | | |
| Balance as at 1 January 2014 | | 1,918,969 | - | (15,310) | 170,370 | (1,592,000) | 482,029 |
| Loss for the year | | - | - | - | - | (181,243) | (181,243) |
| Other comprehensive income | 23 | - | - | 20,795 | (579) | - | 20,216 |
| Total comprehensive loss for 2014 | | - | - | 20,795 | (579) | (181,243) | (161,027) |
| Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus | | - | - | - | (36,361) | 36,361 | - |
| Transactions with shareholder | | | | | | | |
| Non-repayable financial assistance received from the parent company | 32,36 | - | - | - | - | 52,426 | 52,426 |
| Income tax on non-repayable financial assistance received from the parent company | | - | - | - | - | (9,437) | (9,437) |
| Transactions with shareholder, total | | - | - | - | - | 42,989 | 42,989 |
| Balance as at 31 December 2014 | | 1,918,969 | - | 5,485 | 133,430 | (1,693,893) | 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 shareholder | | | | | | | |
| Transactions with the parent company | 32,36 | - | - | - | - | 12,941 | 12,941 |
| Non-registered share capital | 21,22 | - | 330,000 | - | - | - | 330,000 |
| Transactions with shareholder, 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 |

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

G. Szatkowski
 Acting Chairman of the Management Board

Vasyl Lototsky
 Chief Accountant

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

JSC «KREDOBANK»
Separate Statement of Cash Flows (Direct Method)

| <i>In thousands of hryvnias</i> | Note | 2015 | 2014 |
|--|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Interest received | | 834,951 | 543,760 |
| Interest paid | | (313,183) | (255,317) |
| Fees and commissions received | | 280,981 | 207,017 |
| Fees and commissions paid | | (35,815) | (20,876) |
| Income received from trading in foreign currencies | | 64,669 | 55,798 |
| Other operating income received | | 11,655 | 7,037 |
| Staff costs paid | | (218,850) | (173,447) |
| Administrative and other operating expenses paid | | (242,251) | (175,520) |
| Income tax paid | | (8,078) | (89,718) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 374,079 | 98,734 |
| Net decrease in due from banks | | 4,165 | 5,699 |
| Net decrease in mandatory reserves with the NBU | | - | 36,826 |
| Net increase in loans and advances to customers | | (883,750) | (258,757) |
| Net increase in other financial and non-financial assets | | (26,454) | (12,510) |
| Net (decrease)/increase in due to banks | | (403,640) | 66,688 |
| Net increase in customer accounts | | 1,150,178 | 254,024 |
| Net increase in other financial and non-financial liabilities | | 13,425 | 11,326 |
| Net cash from operating activities | | 228,003 | 202,030 |
| Cash flows from investing activities | | | |
| Acquisition of investment securities available for sale | | (791,794) | (691,350) |
| Proceeds from disposal and redemption of investment securities available for sale | | 1,198,470 | 398,085 |
| Acquisition of investment securities held to maturity | | (597,865) | (15,261) |
| Proceeds from redemption of investment securities held to maturity | | 819,759 | 74,076 |
| Acquisition of premises and equipment | 14 | (73,012) | (57,430) |
| Proceeds from disposal of premises and equipment | | 1,011 | 63,348 |
| Acquisition of intangible assets | 14 | (28,471) | (8,006) |
| Contributions to subsidiary's equity | | - | (1,400) |
| Net cash from/(used in) investing activities | | 528,098 | (237,938) |
| Cash flows from financing activities | | | |
| Redemption of subordinated debt | 21,36 | (326,077) | - |
| Contributions paid to non-registered share capital | 21,22 | 330,000 | - |
| Proceeds from non-repayable financial assistance received from the parent company | 32,36 | - | 52,426 |
| Net cash from financing activities | | 3,923 | 52,426 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 162,790 | 125,270 |
| Net increase in cash and cash equivalents | | 922,814 | 141,788 |
| Cash and cash equivalents as at the beginning of the year | | 500,996 | 359,208 |
| Cash and cash equivalents as at the end of the year | 3, 7 | 1,423,810 | 500,996 |

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

G. Szatkowski
 Acting Chairman of the Management Board

Vasyl Lototsky
 Chief Accountant

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

1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for Public Joint Stock Company “Kredobank” (the “Bank”) 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 of 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 regulations. As of 31 December 2015 and 2014 the Bank’s immediate parent company was PKO Bank Polski S.A. (Poland). The Bank is a member of the PKO Bank Polski S.A. Group (“PKO BP S.A. Group”). The largest shareholder of the PKO BP S.A. Group is the State Treasury of Poland.

Principal activity. The Bank’s principal business activity is 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 (Ukraine). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company “KREDOBANK” in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint Stock Companies.

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

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

The key strategic purpose of the Bank is profit activities. The Bank’s mission is to be a reliable financial partner for clients and an attractive employer for employees. Due to specialization and concentration of its 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

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

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

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

Whilst management believes it is taking appropriate measures to support the sustainability of the 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.

3 Significant Accounting Policies (continued)

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)

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.

3 Significant accounting policies (continued)

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 when 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 re-deemed 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.

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; (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.

3 Significant accounting policies (continued)

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 that would not be made if no worsening of the borrower's solvency.

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

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

If the terms of credit agreement on an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using

3 Significant accounting policies (continued)

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 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 the subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

Credit related commitments. The 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 as at the reporting date.

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 their 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.

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

3 Significant accounting policies (continued)

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.

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank. 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. As at 31 December 2015 and 31 December 2014 the fair value of the Bank’s investment property was determined based on reports of the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value.

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

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

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

Buildings held by the 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 land and buildings included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

3 Significant Accounting Policies (continued)

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 of the Bank 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:

| | <u>Useful lives in years</u> |
|-------------------------|---------------------------------------|
| 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 10 years (2014: 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.

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.

3 Significant Accounting Policies (continued)

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 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 reporting 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.

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

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

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

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional and presentation currency is the national currency of Ukraine, hryvnias ("UAH").

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

3 Significant Accounting Policies (continued)

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 (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Staff costs and related 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 financial statements based on the ultimate domicile of the counterparty. The ultimate domicile and the actual place of business of the counterparties generally coincide.

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

3 Significant Accounting Policies (continued)

Presentation of statement of financial position in order of liquidity. The 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 before and after twelve months after the reporting period.

| <i>In thousands of hryvnias</i> | 31 December 2015 | | | 31 December 2014 | | |
|---|---|--|------------------|---|--|------------------|
| | Amounts expected to be recovered or settled | | Total | Amounts expected to be recovered or settled | | Total |
| | Within 12 months after the reporting period | After 12 months after the reporting period | | Within 12 months after the reporting period | After 12 months after the reporting period | |
| Assets | | | | | | |
| Cash and cash equivalents | 1,423,810 | - | 1,423,810 | 500,996 | - | 500,996 |
| Securities at fair value through profit or loss | 201,204 | - | 201,204 | 2,988 | 114,979 | 117,967 |
| Due from banks | 4,097 | - | 4,097 | 6,454 | - | 6,454 |
| Loans and advances to customers | 2,046,417 | 2,093,263 | 4,139,680 | 1,444,585 | 1,448,439 | 2,893,024 |
| Investment securities available for sale | 636,018 | 149,158 | 785,176 | 560,057 | 249,231 | 809,288 |
| Investment securities held to maturity | 1,049,724 | - | 1,049,724 | 580,987 | 278,411 | 859,398 |
| Current income tax prepayment | - | 18,878 | 18,878 | - | 38,186 | 38,186 |
| Deferred income tax asset | - | 32,218 | 32,218 | - | 45,232 | 45,232 |
| Investment property | - | 8,928 | 8,928 | - | 8,928 | 8,928 |
| Intangible assets | - | 59,893 | 59,893 | - | 48,476 | 48,476 |
| Premises, leasehold improvements and equipment | - | 456,696 | 456,696 | - | 424,726 | 424,726 |
| Other financial assets | 30,596 | - | 30,596 | 14,879 | 289 | 15,168 |
| Other assets | 61,384 | - | 61,384 | 40,688 | 2,505 | 43,193 |
| Non-current assets held for sale | - | - | - | 1,451 | - | 1,451 |
| Total assets | 5,453,250 | 2,819,034 | 8,272,284 | 3,153,085 | 2,659,402 | 5,812,487 |
| Liabilities | | | | | | |
| Due to banks | 1,157,739 | - | 1,157,739 | 681,912 | 504,594 | 1,186,506 |
| Customer accounts | 5,594,461 | 59,876 | 5,654,337 | 3,555,107 | 63,814 | 3,618,921 |
| Other financial liabilities | 46,839 | - | 46,839 | 23,714 | 301 | 24,015 |
| Other non-financial liabilities | 66,467 | - | 66,467 | 32,152 | 16 | 32,168 |
| Subordinated debt | - | 516,946 | 516,946 | 737 | 586,149 | 586,886 |
| Total liabilities | 6,865,506 | 576,822 | 7,442,328 | 4,293,622 | 1,154,874 | 5,448,496 |

3 Significant Accounting Policies (continued)

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

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

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

| <i>In thousands of hryvnias</i> | As initially reported | Adjustment | As restated |
|---|------------------------------|-------------------|--------------------|
| Interest income | 545,002 | 19,337 | 564,339 |
| Interest expense | (257,096) | - | (257,096) |
| Net interest income | 287,906 | 19,337 | 307,243 |
| Provision for loan impairment | (240,175) | (19,337) | (259,512) |
| Net interest margin less provision for loan impairment | 47,731 | - | 47,731 |

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

| <i>In thousands of hryvnias</i> | As initially reported | Adjustment | As restated |
|---|------------------------------|-------------------|--------------------|
| Proceeds from disposal and redemption of investment securities available for sale | 933,753 | (535,668) | 398,085 |
| Acquisition of investment securities held to maturity | (4,630,261) | 4,615,000 | (15,261) |
| Proceeds from disposal and redemption of investment securities held to maturity | 4,183,408 | (4,109,332) | 74,076 |
| Net cash flows used in investing activities | (207,938) | (30,000) | (237,938) |
| Net increase/(decrease) in cash and cash equivalents for 2014 | 171,788 | (30,000) | 141,788 |
| Cash and cash equivalents as at the beginning of the year | 329,208 | 30,000 | 359,208 |

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management 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 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. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 1,032 thousand (31 December 2014: UAH 968 thousand) higher or UAH 209 thousand (31 December 2014: UAH 272 thousand) lower.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses by UAH 29,932 thousand or a decrease in loan impairment losses by UAH 40,641 thousand (2014: an increase by UAH 21,312 thousand or a decrease by UAH 27,744 thousand), respectively.

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 the premises would have increased/decreased by UAH 26,263 thousand.

5 Adoption of New or Revised Standards and Interpretations

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

6 New Accounting Pronouncements

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

6 New Accounting Pronouncements (continued)

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

The Bank is currently assessing the impact of the new standard on its separate financial statements.

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

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

6 New Accounting Pronouncements (continued)

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

The following other new standards and interpretations are not expected to have any impact on the Bank's separate financial statements when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

7 Cash and Cash Equivalents

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

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

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

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

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

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

7 Cash and Cash Equivalents (continued)

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

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

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

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

8 Securities at Fair Value through Profit or Loss

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|----------------|----------------|
| Ukrainian government bonds | 201,204 | 117,967 |
| Total debt securities | 201,204 | 117,967 |
| Total securities at fair value through profit or loss | 201,204 | 117,967 |

Debt securities, designated into this category are represented by indexed bonds issued by the Ukrainian government. These bonds are redeemed at their index value, but no less than their nominal value. The nominal value of the 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.

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

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

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

9 Due from Banks

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

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

| <i>In thousands of hryvnias</i> | Guarantee deposits | Total |
|--------------------------------------|---------------------------|--------------|
| <i>Neither past due nor impaired</i> | | |
| - unrated | 4,097 | 4,097 |
| Total due from banks | 4,097 | 4,097 |

9 Due from Banks (continued)

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

| <i>In thousands of hryvnias</i> | Guarantee deposits | Total |
|--------------------------------------|---------------------------|--------------|
| <i>Neither past due nor impaired</i> | | |
| - Ca rated | 6,368 | 6,368 |
| - unrated | 86 | 86 |
| Total due from banks | 6,454 | 6,454 |

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

10 Loans and Advances to Customers

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|---|------------------|------------------|
| Corporate loans | 2,995,852 | 1,967,758 |
| Loans to individuals - car and consumer loans | 1,170,505 | 828,466 |
| Loans to individuals - mortgage loans | 622,619 | 507,372 |
| Reverse sale and repurchase agreements | - | 35,079 |
| Less: provision for loan impairment | (649,296) | (445,651) |
| Total loans and advances to customers | 4,139,680 | 2,893,024 |

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

During 2015, the Bank derecognised outstanding loans as a result of forgiveness and sale to unrelated parties of a fixed rate portfolio with the gross amount before provision for impairment of UAH 13,013 thousand (2014: UAH 4,623 thousand) and the carrying value of UAH 4,966 thousand (2014: UAH 1,449 thousand). As a result of these transactions, the Bank recognised net loss of UAH 2,705 thousand (2014: net loss of UAH 1,366 thousand).

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

| <i>In thousands of hryvnias</i> | 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.

10 Loans and Advances to Customers (continued)

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

| <i>In thousands of hryvnias</i> | Corporate loans | Car and consumer loans | Mortgage loans | Total |
|--|-----------------|------------------------|----------------|----------------|
| Provision for loan impairment as at 1 January 2014 | 228,123 | 33,200 | 70,490 | 331,813 |
| Provision for loan impairment during the year | 110,233 | 87,466 | 71,048 | 268,747 |
| Loans and advances to customers sold and forgiven during the year | (109,736) | (762) | (8,687) | (119,185) |
| Loans and advances to customers written off during the year as uncollectible | (39,685) | (15,632) | (6,421) | (61,738) |
| Interests accrued on impaired loans | (12,125) | (1,505) | (5,707) | (19,337) |
| Foreign currency translation differences | 16,478 | 4,148 | 24,725 | 45,351 |
| Provision for loan impairment as at 31 December 2014 | 193,288 | 106,915 | 145,448 | 445,651 |

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

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

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

| <i>In thousands of hryvnias</i> | 2015 | | 2014 | |
|--|------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| Individuals | 1,793,124 | 37 | 1,335,838 | 40 |
| Agriculture and food processing | 980,306 | 21 | 551,426 | 17 |
| Trade | 844,252 | 18 | 469,117 | 14 |
| Manufacturing | 798,530 | 17 | 643,312 | 19 |
| Other services | 214,222 | 5 | 131,330 | 4 |
| Real estate and construction | 63,216 | 1 | 77,569 | 2 |
| Transportation | 44,877 | 1 | 50,752 | 2 |
| Mining | 20,172 | - | 22,383 | 1 |
| Financial services | 5,901 | - | 48,955 | 1 |
| Hotels | 2,221 | - | 1,119 | - |
| Health resorts | 1,350 | - | 1,426 | - |
| Sports and recreation services | 315 | - | 318 | - |
| Other | 20,490 | - | 5,130 | - |
| Total loans and advances to customers (gross) | 4,788,976 | 100 | 3,338,675 | 100 |

At 31 December 2015, the total gross exposure of top 10 borrowers of the Bank was UAH 855,410 thousand (31 December 2014: UAH 611,098 thousand), or 18% of the gross loan portfolio (31 December 2014: 18%).

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

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

10 Loans and Advances to Customers (continued)

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

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

| <i>In thousands of hryvnias</i> | 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 |

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

| <i>In thousands of hryvnias</i> | Corporate loans | Car and consumer loans | Mortgage loans | Reverse sale and re-purchase agreements | Total |
|--|------------------------|-------------------------------|-----------------------|--|------------------|
| Unsecured loans | 151,105 | 143,133 | 82,893 | - | 377,131 |
| Loans secured by: | | | | | |
| - cash deposits | 228,425 | 4,183 | - | - | 232,608 |
| - residential real estate | 42,608 | 188 | 343,109 | - | 385,905 |
| - other real estate | 988,351 | 26 | 77,541 | - | 1,065,918 |
| - other assets | 557,269 | 680,936 | 3,829 | 35,079 | 1,277,113 |
| Total loans and advances to customers (gross) | 1,967,758 | 828,466 | 507,372 | 35,079 | 3,338,675 |

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

10 Loans and Advances to Customers (continued)

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

| <i>In thousands of hryvnias</i> | Corporate loans | Car and consumer loans | Mortgage loans | Total |
|--|------------------|------------------------|------------------|------------------|
| <i>Neither past due nor impaired</i> | | | | |
| - 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 |
| <i>Past due but not impaired</i> | | | | |
| - 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 |
| <i>Loans individually and collectively determined to be impaired (gross)</i> | | | | |
| - 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 individually and collectively impaired loans (gross) | 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 classifies loans and advances to customers by credit quality based on the borrower's financial position 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 2014 is presented below:

| | Corporate loans | Car and consumer loans | Mortgage loans | Reverse sale and repur- chase agree- ments | Total |
|--|--------------------|------------------------------|-------------------|---|------------------|
| <i>In thousands of hryvnias</i> | | | | | |
| <i>Neither past due nor impaired</i> | | | | | |
| - High grade | 756,177 | 451,826 | 92,978 | 35,079 | 1,336,060 |
| - Standard grade | 569,298 | 224,265 | 153,152 | - | 946,715 |
| - Sub-standard grade | 28,820 | 2,031 | 8,462 | - | 39,313 |
| Total neither past due nor impaired | 1,354,295 | 678,122 | 254,592 | 35,079 | 2,322,088 |
| <i>Past due but not impaired</i> | | | | | |
| - less than 30 days overdue | 52,682 | 4,252 | - | - | 56,934 |
| - 30 to 90 days overdue | 37,475 | 29,204 | 15,362 | - | 82,041 |
| - 91 to 180 days overdue | 2,201 | 655 | 3,467 | - | 6,323 |
| - 181 to 360 days overdue | 6,797 | 30 | 882 | - | 7,709 |
| - over 360 days overdue | 37,353 | 23 | 3,141 | - | 40,517 |
| Total past due, but not impaired | 136,508 | 34,164 | 22,852 | - | 193,524 |
| <i>Loans individually and collectively deter- mined to be impaired (gross)</i> | | | | | |
| - not yet past due | 291,039 | 329 | 38,355 | - | 329,723 |
| - less than 30 days overdue | 38,203 | - | - | - | 38,203 |
| - 30 to 90 days overdue | 18,798 | 33 | 6,298 | - | 25,129 |
| - 91 to 180 days overdue | 24,763 | 33,189 | 16,810 | - | 74,762 |
| - 181 to 360 days overdue | 31,380 | 52,549 | 46,969 | - | 130,898 |
| - over 360 days overdue | 72,772 | 30,080 | 121,496 | - | 224,348 |
| Total individually and collectively im- paired loans (gross) | 476,955 | 116,180 | 229,928 | - | 823,063 |
| Less provision for impairment | (193,288) | (106,915) | (145,448) | - | (445,651) |
| Total loans and advances to custom- ers | 1,774,470 | 721,551 | 361,924 | 35,079 | 2,893,024 |

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

10 Loans and Advances to Customers (continued)

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

| | Over-collateralised assets | | Under-collateralised assets | |
|---------------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
| | Carrying value of the asset | Fair value of collateral | Carrying value of the asset | Fair value of collateral |
| <i>In thousands of hryvnias</i> | | | | |
| 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 |

The effect of collateral as at 31 December 2014 is summarised below:

| | Over-collateralised assets | | Under-collateralised assets | |
|--|------------------------------|--------------------------|------------------------------|--------------------------|
| | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| <i>In thousands of hryvnias</i> | | | | |
| Corporate loans | 203,605 | 296,944 | 236,721 | 190,920 |
| Mortgage loans | 36,888 | 52,457 | 61,895 | 51,427 |
| Car and consumer loans | 609 | 687 | 400 | 243 |
| Reverse sale and repurchase agreements | 35,079 | 35,079 | - | - |
| Total | 276,181 | 385,167 | 299,016 | 242,590 |

For remaining commercial loans without specifically identified impairment, the fair value of collateral was estimated at the inception of the loans and is adjusted once a year for subsequent changes in value on the ongoing basis in line with the significant market changes in value for real estate or 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. 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.

10 Loans and Advances to Customers (continued)

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.

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

| In Donetsk and Lugansk regions | 31 December 2015 | 31 December 2014 |
|---------------------------------------|-------------------------|-------------------------|
| - loan indebtedness | 98,693 | 108,267 |
| - loan loss provision | (89,256) | (70,144) |
| - loans after impairment | 9,437 | 38,123 |
| In AR Crimea | | |
| - loan indebtedness | 72,369 | 73,791 |
| - loan loss provision | (71,413) | (72,421) |
| - loans after impairment | 956 | 1,370 |

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.

During 2014 the Bank sold to a related party the right to the cash flows from a portfolio of fixed rate loans with gross book value before impairment provision of UAH 356,781 thousand and net book value of UAH 207,606 thousand. As a result of this transaction the Bank recognised profit of UAH 34,530 thousand that reflects the effect of assets disposed on profit or loss for the reporting year. There were no loan sale agreements with related parties in 2015.

11 Investment Securities Available for Sale

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

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

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

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

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

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

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

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.

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

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

12 Investment Securities Held to Maturity

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|---|------------------|----------------|
| Ukrainian government bonds | 1,049,724 | 859,398 |
| Total investment securities held to maturity | 1,049,724 | 859,398 |

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

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

13 Investment Property

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

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

As at 31 December 2015 and 31 December 2014 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 carrying value and market value of premises was not essential as at 31 December 2015 and 31 December 2014.

Information on operating lease income is disclosed in Note 26.

14 Premises, Leasehold Improvements, Equipment and Intangible Assets

| | Note | Premises and leasehold improvements | Computer and equipment | Furniture and fixtures | Motor vehicles | Construction-in-progress | Total premises, leasehold improvements and equipment | Computer software licences | Total |
|--|------|-------------------------------------|------------------------|------------------------|----------------|--------------------------|--|----------------------------|------------------|
| <i>In thousands of hryvnias</i> | | | | | | | | | |
| Cost as at 1 January 2014 | | 358,128 | 187,235 | 81,100 | 16,046 | 23,319 | 665,828 | 111,232 | 777,060 |
| Accumulated depreciation and amortisation | | (28,665) | (116,649) | (50,471) | (9,497) | - | (205,282) | (39,961) | (245,243) |
| Net book value as at 1 January 2014 | | 329,463 | 70,586 | 30,629 | 6,549 | 23,319 | 460,546 | 71,271 | 531,817 |
| Additions | | 3,156 | 30,526 | 15,456 | 4,237 | 4,055 | 57,430 | 8,006 | 65,436 |
| Transfers to investment property | | 5,242 | 1,342 | 2,050 | 936 | (11,232) | (1,662) | 1,662 | - |
| Disposals | | (44,514) | (687) | (1,702) | (9) | - | (46,912) | - | (46,912) |
| Depreciation and amortisation charge | 27 | (8,253) | (15,249) | (7,072) | (2,010) | - | (32,584) | (14,079) | (46,663) |
| Impairment and write-off | | - | - | - | - | (12,092) | (12,092) | (18,384) | (30,476) |
| Net book value as at 31 December 2014 | | 285,094 | 86,518 | 39,361 | 9,703 | 4,050 | 424,726 | 48,476 | 473,202 |
| Cost as at 31 December 2014 | | 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 31 December 2014 | | 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 investment property | | (1,453) | 1,835 | 801 | 906 | (3,069) | (980) | 980 | - |
| Disposals | | (496) | (117) | (727) | (123) | - | (1,463) | - | (1,463) |
| Depreciation and amortisation charge | 27 | (7,030) | (20,206) | (7,935) | (2,447) | - | (37,618) | (18,034) | (55,652) |
| Impairment and write-off | | - | - | - | - | (981) | (981) | - | (981) |
| 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 at 31 December 2015 | | 318,824 | 238,179 | 102,955 | 22,880 | 6,815 | 689,653 | 128,855 | 818,508 |
| Accumulated depreciation and 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 |

14 Premises, Leasehold Improvements, Equipment and Intangible Assets (continued)

As at 31 December 2015 the cost of fully depreciated equipment that is still in use is UAH 64,723 thousand (31 December 2014: UAH 63,581 thousand) and the cost of fully amortised intangible assets that are still in use is UAH 15,484 thousand (31 December 2014: UAH 9,891 thousand). In 2014 management revised useful lives of the Bank's intangible assets and adjusted them to 10 years.

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

As at 31 December 2015 and 31 December 2014, the Bank has no premises and equipment 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 2015. These premises are evaluated based on the analogous comparison method, the reports of internal appraiser who holds the relevant professional qualification and has recent experience in valuation of properties of the similar category and location. The premises are valued based on market value of assets. Premises were not reassessed, as the difference between carrying value and market value of premises was not essential as at 31 December 2015.

If the assets have been recognized at cost less depreciation, carrying value of premises and leasehold improvements would have amounted to UAH 154,801 thousand as at 31 December 2015 (31 December 2014 – UAH 154,137 thousand).

15 Other Financial Assets

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

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

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

15 Other Financial Assets (continued)

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

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

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

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

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

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

15 Other Financial Assets (continued)

The primary factors that the 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

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|---------------|---------------|
| Prepaid expenses | 28,549 | 13,241 |
| Prepayments for goods and construction in progress | 15,237 | 8,676 |
| Repossessed collateral | 6,380 | 14,432 |
| Inventory | 5,897 | 2,984 |
| Prepayment for services | 5,876 | 4,210 |
| Prepaid taxes other than income tax | 5,413 | 4,664 |
| Receivables from settlements with employees and other | 1,976 | 1,437 |
| Provision for impairment of other non-financial assets | (7,944) | (6,451) |
| Total other non-financial assets | 61,384 | 43,193 |

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

17 Due to Banks

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|------------------|------------------|
| Correspondent accounts and overnight placements of other banks | 221,705 | 474,242 |
| Term deposits and loans from other banks | 936,034 | 712,264 |
| Total due to banks | 1,157,739 | 1,186,506 |

As at 31 December 2015, term deposits and loans include UAH 936,034 thousand (31 December 2014: UAH 693,816 thousand) received from PKO BP S.A., and correspondent accounts and overnight deposits of other banks include balances on accounts of PKO BP S.A. in the amount of UAH 141,647 thousand (31 December 2014: UAH 448,964 thousand).

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

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

18 Customer Accounts

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|---------------------------------|------------------|------------------|
| Legal entities | | |
| - Current/settlement accounts | 1,987,240 | 1,312,013 |
| - Term deposits | 954,038 | 356,729 |
| Individuals | | |
| - Current/demand accounts | 721,963 | 411,390 |
| - Term deposits | 1,991,096 | 1,538,789 |
| Total customer accounts | 5,654,337 | 3,618,921 |

Economic sector concentrations within customer accounts are as follows:

| <i>In thousands of hryvnias</i> | 2015 | | 2014 | |
|---------------------------------|------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| Individuals | 2,713,059 | 48 | 1,950,179 | 54 |
| Manufacturing | 892,488 | 16 | 392,318 | 11 |
| Trade | 509,930 | 9 | 308,513 | 9 |
| Financial services | 305,888 | 5 | 253,876 | 7 |
| Other services | 462,913 | 8 | 234,507 | 6 |
| Real estate | 184,276 | 3 | 77,566 | 2 |
| Transport and communication | 101,867 | 2 | 48,352 | 1 |
| Agriculture | 132,403 | 3 | 37,049 | 1 |
| Other | 351,513 | 6 | 316,561 | 9 |
| Total customer accounts | 5,654,337 | 100 | 3,618,921 | 100 |

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

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

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

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

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

19 Other Financial Liabilities

Other financial liabilities are presented as follows:

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

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

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

20 Other Non-Financial Liabilities

Other non-financial liabilities are presented as follows:

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|---------------|---------------|
| Accrued employee benefit costs | 30,825 | 15,136 |
| Deferred income | 22,451 | 2,179 |
| Taxes payable, other than income tax | 6,715 | 11,226 |
| Amounts payable to Deposit Guarantee Fund | 4,329 | 2,964 |
| Other | 2,147 | 663 |
| Total other non-financial liabilities | 66,467 | 32,168 |

21 Subordinated Debt

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

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

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

21 Subordinated Debt (continued)

On 18 May 2010, the interest rate on both loans was changed to 1 - month LIBOR + 3.75% p.a. This represented a substantial change in terms of the original financial liability and was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The 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 recognised.

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

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

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

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

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

22 Share capital

| <i>In thousands of hryvnias, except for the number of shares</i> | Number of issued and registered shares | Nominal amount | Total |
|--|---|-----------------------|--------------|
| At 1 January 2014 | 191,896,946,916 | 1,918,969 | 1,918,969 |
| At 31 December 2014 | 191,896,946,916 | 1,918,969 | 1,918,969 |
| At 31 December 2015 | 191,896,946,916 | 1,918,969 | 1,918,969 |

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

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

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

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

The Bank's shareholder structure is presented below:

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

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

23 Other Comprehensive Income Recognised in Equity

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

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

24 Interest Income and Expense

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|---|----------------|----------------|
| Interest income | | |
| Loans and advances to legal entities | 375,405 | 262,263 |
| Loans and advances to individuals | 232,212 | 158,499 |
| Investment securities available for sale | 103,300 | 76,681 |
| Investment securities held to maturity | 96,640 | 53,271 |
| Deposit certificates issued by the NBU | 48,748 | 3,693 |
| Due from banks | 16,673 | 3,572 |
| Securities at fair value through profit or loss | 6,358 | 6,360 |
| Total interest income | 879,336 | 564,339 |
| Interest expense | | |
| Deposits from individuals | 194,880 | 172,523 |
| Deposits from legal entities | 80,236 | 51,426 |
| Due to banks | 30,279 | 20,530 |
| Subordinated debt | 9,752 | 11,076 |
| Amounts due to the National Bank of Ukraine | 76 | 1,541 |
| Total interest expense | 315,223 | 257,096 |
| Net interest income | 564,113 | 307,243 |

Interest income on impaired financial assets amounts to UAH 60,546 thousand for 2015 (2014: UAH 79,877 thousand).

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

25 Fee and Commission Income and Expense

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|----------------|----------------|
| Fee and commission income | | |
| Cash and settlement transactions | 210,746 | 144,761 |
| Purchase and sale of foreign currency | 48,755 | 25,019 |
| Agency fee from insurance companies | 18,931 | 36,282 |
| Guarantees issued and other trade finance transactions | 2,595 | 1,907 |
| Other | 2,820 | 1,251 |
| Total fee and commission income | 283,847 | 209,220 |
| Fee and commission expense | | |
| Cash and settlement transactions | 34,192 | 19,131 |
| Guarantees received and other trade finance transactions | 784 | 422 |
| Transactions with securities | 486 | 275 |
| Other | 353 | 1,048 |
| Total fee and commission expense | 35,815 | 20,876 |
| Net fee and commission income | 248,032 | 188,344 |

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

26 Other Operating Income

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

27 Administrative and Other Operating Expenses

| <i>In thousands of hryvnias</i> | Note | 2015 | 2014 |
|--|-------------|----------------|----------------|
| Staff costs | | 234,702 | 177,889 |
| Repair and maintenance of premises and equipment and software maintenance | | 59,843 | 51,509 |
| Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets | 14 | 55,652 | 46,663 |
| Property operating lease expense | | 49,373 | 35,385 |
| Utilities | | 25,923 | 22,312 |
| Communication | | 23,089 | 15,146 |
| Contributions to Individuals' Deposit Guarantee Fund | | 14,706 | 12,037 |
| Professional services | | 12,687 | 13,052 |
| Security services | | 9,603 | 8,454 |
| Advertising and marketing | | 8,288 | 5,797 |
| Taxes, other than income tax | | 6,322 | 7,920 |
| Business trips | | 3,992 | 2,580 |
| Charity | | 530 | 575 |
| Other | | 35,775 | 27,704 |
| Total administrative and other operating expenses | | 540,485 | 427,023 |

Staff costs include the unified social tax in the amount of UAH 53,269 thousand (2014: UAH 42,794 thousand). Contribution to the state pension fund comprises 90% of the unified social tax amounting to UAH 47,942 thousand (2014: UAH 38,514 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:

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|---------------|-----------------|
| Current tax | 17,319 | 8,441 |
| Tax on financial assistance recognised in equity | - | (9,437) |
| Deferred tax | 13,025 | (30,111) |
| Income tax expense / (benefit) for the year | 30,344 | (31,107) |

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

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

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|----------------|------------------|
| Profit/(loss) before tax | 142,793 | (212,350) |
| Expected income tax expense/(benefit) at applicable tax rate (2015: 18%; 2014: 18%) | 25,703 | (38,223) |
| Tax effect of non-deductible items and non-taxable items: | | |
| - Income recognised for tax purposes | 368 | 3,703 |
| - Debt forgiveness expenses and charges to provisions not recognized for tax purposes | - | 765 |
| - Other non-deductible expenses | - | 6,185 |
| Effect of other changes in tax legislation | 4,273 | (3,537) |
| Income tax expense / (benefit) for the year | 30,344 | (31,107) |

(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:

| | 31 Decem- ber 2014 | Recognized in profit or loss for the year | Recognized in other compre- hensive in- come for the year | 31 Decem- ber 2015 |
|---|-------------------------------|--|--|-------------------------------|
| <i>In thousands of hryvnias</i> | | | | |
| Tax effect of deductible/(taxable) temporary differences | | | | |
| Premises and equipment | 13,703 | 1,600 | 12 | 15,314 |
| Provision for loan impairment | 19,375 | (4,893) | - | 14,482 |
| Unamortised discounts/premiums | 3,756 | (3,756) | - | - |
| Estimation of fair valuation of securities | 3,757 | (1,335) | - | 2,422 |
| Accrued expenses and other liabilities | 2,688 | (2,688) | - | - |
| Interest accrued on carrying value of loans | 2,214 | (2,214) | - | - |
| Other | (261) | 261 | - | - |
| Net deferred tax asset | 45,232 | (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 |

28 Income tax (continued)

| | 31 Decem- ber 2013 | Recognized in profit or loss for the year | Recognized in other compre- hensive in- come for the year | 31 Decem- ber 2014 |
|---|-----------------------|---|---|-----------------------|
| <i>In thousands of hryvnias</i> | | | | |
| Tax effect of deductible/(taxable) temporary differences | | | | |
| Premises and equipment | 12,306 | 1,976 | (579) | 13,703 |
| Provision for loan impairment | (2,978) | 22,353 | - | 19,375 |
| Unamortised discounts/premiums | 1,145 | 2,611 | - | 3,756 |
| Estimation of fair valuation of securities | 1,829 | 3,629 | (1,701) | 3,757 |
| Accrued expenses and other liabilities | 3,886 | (1,198) | - | 2,688 |
| Interest accrued on carrying value of loans | - | 2,214 | - | 2,214 |
| Other | 1,213 | (1,474) | - | (261) |
| Net deferred tax asset | 17,401 | 30,111 | (2,280) | 45,232 |
| Recognised deferred tax asset | 20,379 | - | - | 45,493 |
| Recognised deferred tax liability | (2,978) | - | - | (261) |
| Net deferred tax asset | 17,401 | 30,111 | (2,280) | 45,232 |

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

29 Basic and Diluted Loss per Share

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

Loss per share is calculated as follows:

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

30 Segment Analysis

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

30 Segment analysis (continued)**(a) Reportable segments**

The Bank has the following three reportable segments:

- Retail banking – banking services to individuals including current and saving accounts, deposits, investments, credit and debit cards, consumer loans and mortgages, foreign currency transactions.
- Corporate banking – direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities, and foreign currency operations.
- 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 that focus on different customers. They are managed separately since each business unit requires different marketing strategies and service levels.

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

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

The following approaches are applied to segment analysis:

- 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 purposes, segment performance is measured based on profit before tax.

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

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

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

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

| | Retail banking | Corporate banking | Treasury and Investment banking | Unallocated items | Total |
|---------------------------------|-------------------|----------------------|---------------------------------------|----------------------|------------------|
| <i>In thousands of hryvnias</i> | | | | | |
| 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 | - | - | - | 8,562 | 8,562 |

30 Segment analysis (continued)

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

| | Retail banking | Corporate banking | Treasury and Investment banking | Unallocated items | Eliminations | Total |
|--|---------------------------|------------------------------|--|------------------------------|---------------------|------------------|
| <i>In thousands of hryvnias</i> | | | | | | |
| 2015 | | | | | | |
| <i>External revenues</i> | | | | | | |
| - Interest income | 232,212 | 375,405 | 271,719 | - | - | 879,336 |
| - Fee and commission income | 120,834 | 158,994 | 4,019 | - | - | 283,847 |
| - Other operating income | 2,833 | 2,397 | - | 8,328 | - | 13,558 |
| <i>Revenues from other segments</i> | | | | | | |
| - Interest income | 247,407 | 152,351 | 553,821 | - | (953,579) | - |
| Total revenues | 603,286 | 689,147 | 829,559 | 8,328 | (953,579) | 1,176,741 |
| Interest expense | (433,310) | (393,309) | (442,183) | - | 953,579 | (315,223) |
| Provision for loan impairment | (89,575) | (110,805) | - | - | - | (200,380) |
| Impairment of investment securities available for sale | - | - | 388 | - | - | 388 |
| Provision for credit related commitments and other losses | 14 | 860 | - | (1,030) | - | (156) |
| Fee and commission expense | (23,334) | (6,968) | (5,513) | - | - | (35,815) |
| Gain from revaluation of securities at fair value through profit or loss | - | - | 83,220 | - | - | 83,220 |
| Gains less losses from trading in foreign currencies | 46,655 | - | (5,507) | 23,521 | - | 64,669 |
| Revaluation of foreign currency position | - | - | - | (85,178) | - | (85,178) |
| Gain less losses from transactions with securities available for sale | - | - | 1,490 | - | - | 1,490 |
| Administrative and operating expenses and provisions for other assets | (318,365) | (194,706) | (33,892) | - | - | (546,963) |
| Segment result | (214,629) | (15,781) | 427,562 | (54,359) | - | 142,793 |

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

| | Retail banking | Corporate banking | Treasury and Investment banking | Unallocated items | Total |
|---------------------------------|---------------------------|------------------------------|--|------------------------------|------------------|
| <i>In thousands of hryvnias</i> | | | | | |
| Assets | 1,156,352 | 1,885,015 | 2,377,183 | 611,240 | 6,029,790 |
| Liabilities | 1,980,723 | 1,667,180 | 1,753,407 | 134,915 | 5,536,225 |
| Capital expenditures | - | - | - | 15,897 | 15,897 |

30 Segment analysis (continued)

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

| | Retail banking | Corporate banking | Treasury and Investment banking | Unallocated items | Eliminations | Total |
|--|------------------|-------------------|---------------------------------|-------------------|------------------|----------------|
| <i>In thousands of hryvnias</i> | | | | | | |
| 2014 | | | | | | |
| <i>External revenues</i> | | | | | | |
| - Interest income | 154,467 | 238,854 | 154,043 | - | - | 547,364 |
| - Fee and commission income | 81,793 | 96,133 | 4,046 | - | - | 181,972 |
| - Other operating income | 36,827 | 9,497 | - | 64,091 | - | 110,415 |
| <i>Revenues from other segments</i> | | | | | | |
| - Interest income | 215,894 | 93,404 | 356,959 | - | (666,257) | - |
| Total revenues | 488,981 | 437,888 | 515,048 | 64,091 | (666,257) | 839,751 |
| Interest expense | (336,069) | (244,055) | (336,918) | - | 666,257 | (250,785) |
| Provision for loan impairment | (96,477) | 91,489 | (1,034) | - | - | (6,022) |
| Impairment of investment securities available for sale | - | - | (1,203) | - | - | (1,203) |
| Provision for credit related commitments and other losses | 335 | 1,011 | - | - | - | 1,346 |
| Fee and commission expense | (12,752) | (3,464) | (4,252) | - | - | (20,468) |
| Gain from revaluation of securities at fair value through profit or loss | - | - | 47,335 | - | - | 47,335 |
| Gains less losses from trading in foreign currencies | 43,544 | - | - | 11,602 | - | 55,146 |
| Revaluation of foreign currency position | - | - | - | (83,999) | - | (83,999) |
| Gain less losses from transactions with securities available for sale | - | - | 2,409 | - | - | 2,409 |
| Administrative and operating expenses and provisions for other assets | (267,317) | (265,509) | (40,342) | 2,645 | - | (570,523) |
| Segment result | (179,755) | 17,360 | 181,043 | (5,661) | - | 12,987 |

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

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|------------------|------------------|
| Total revenues for reportable segments | 2,121,992 | 1,441,917 |
| Recognition of non-repayable financial assistance from Parent Company directly in equity | - | (52,426) |
| Interest income restated in accordance with IFRS | - | 14,962 |
| Difference on accounting for transactions with securities | - | (10,215) |
| Unallocated items | 8,328 | 64,091 |
| Eliminations | (953,579) | (666,257) |
| Other | - | 39 |
| Total revenues | 1,176,741 | 792,111 |

30 Segment analysis (continued)

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

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|----------------|------------------|
| Total reportable segment result | 197,152 | 18,648 |
| Recognition of non-repayable financial assistance from Parent Company directly in equity | - | (52,426) |
| Effect of restatement of provision for loan impairment | - | (149,715) |
| Subordinated debt recognized at amortized cost | - | (14,506) |
| Interest income restated in accordance with IFRS | - | 15,037 |
| Fair value adjustment of other assets | - | (21,914) |
| Other | - | (1,813) |
| Unallocated items | (54,359) | (5,661) |
| Loss before tax | 142,793 | (212,350) |

Adjustments applied during 2014 are presented as follows:

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

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|--|------------------|------------------|
| Reportable segment assets | 7,634,207 | 5,418,550 |
| Adjustment of deferred tax and current tax | - | 15,216 |
| Adjustment of cash balances | - | (21,933) |
| Restatement of provision for loans | - | (119,855) |
| Offsettings and reclassifications | - | (54,030) |
| Fair value adjustment of other assets | - | (13,482) |
| Adjustment of property and equipment | - | (2,355) |
| Other | - | (20,864) |
| Unallocated items | 638,077 | 611,240 |
| Total assets | 8,272,284 | 5,812,487 |

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|---|------------------|------------------|
| Total reportable segment liabilities | 7,351,770 | 5,401,310 |
| Adjustment of balances on customer accounts | - | (43,189) |
| Offsettings | - | (54,030) |
| Adjustment of current tax and deferred tax | - | (11,459) |
| Adjustment of subordinated debt | - | 20,866 |
| Other | - | 83 |
| Unallocated items | 90,558 | 134,915 |
| Total liabilities | 7,442,328 | 5,448,496 |

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

- (i) for segment analysis purposes, the Bank uses provisions for asset impairment recognized in accordance with the NBU requirements;
- (ii) certain deferred tax assets are not recognized for segment analysis purposes;
- (iii) other assets and other liabilities are off-set for IFRS reporting purposes;
- (iv) for IFRS reporting purposes, actual cash balances and customer account balances are recognized as at the reporting date.

30 Segment analysis (continued)

(f) Analysis of revenues by product and service

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

(g) Geographical information

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

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

Credit risk. The 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 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 Head Office departments have individual powers to approve new credit decisions with the limits below UAH 5.0 million;

31 Financial Risk Management (continued)

- 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.

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

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

Market risk. The 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 on a daily basis. However, this approach does not prevent losses outside the limits in the event of significant market developments.

Currency risk. Management sets currency risk limits and overall acceptable risk exposure for overnight and intra-day positions, with day-to-day 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, monitors, and establishes limits 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 by Market and Operational Risk Department on a daily basis. Market and Operational Risk Department reports to Asset, Liability and Tariff Management Committee (ALTCO) on a weekly basis.

31 Financial Risk Management (continued)

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

| <i>In thousands of hryvnias</i> | At 31 December 2015 | | | | At 31 December 2014 | | | |
|---------------------------------|---------------------------|--------------------------------|-----------------------|-----------|---------------------------|--------------------------------|----------------------------------|-----------|
| | Monetary financial assets | Monetary financial liabilities | Financial derivatives | Net | Monetary financial assets | Monetary financial liabilities | Derivative financial instruments | Net |
| US Dollars | 2,465,175 | 2,747,357 | 5,404 | (276,778) | 2,251,411 | 2,430,840 | (9,022) | (188,451) |
| Euros | 670,889 | 796,280 | (25,699) | (151,090) | 485,796 | 549,620 | 9,039 | (54,785) |
| British pounds | 9,544 | 9,291 | - | 253 | 5,326 | 5,192 | - | 134 |
| Russian roubles | 27,577 | 16,765 | (10,719) | 93 | 17,341 | 17,227 | - | 114 |
| Other | 84,266 | 75,810 | (5,016) | 3,440 | 26,043 | 23,021 | - | 3,022 |

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

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:

| <i>In thousands of hryvnias</i> | At 31 December 2015 | | At 31 December 2014 | |
|---|---------------------|----------|---------------------|----------|
| | Profit or loss | Equity | Profit or loss | Equity |
| 40% strengthening of US dollar (2014: 40% strengthening) | (90,783) | (90,783) | (61,812) | (61,812) |
| 40% weakening of US dollar (2014: 40% weakening) | 90,783 | 90,783 | 61,812 | 61,812 |
| 40% strengthening of EURO (2014: 40% strengthening) | (49,558) | (49,558) | (17,969) | (17,969) |
| 40% weakening of EURO (2014: 40% weakening) | 49,558 | 49,558 | 17,969 | 17,969 |
| 40% strengthening of Russian rouble (2014: 40% strengthening) | 31 | 31 | 37 | 37 |
| 40% weakening of Russian rouble (2014: 40% weakening) | (31) | (31) | (37) | (37) |
| 40% strengthening of other currencies (2014: 40% strengthening) | 1,211 | 1,211 | 1,035 | 1,035 |
| 40% weakening of other currencies (2014: 40% weakening) | (1,211) | (1,211) | (1,035) | (1,035) |

The exposure was calculated only for monetary items denominated in currencies other than 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 9,649 thousand lower/higher as at 31 December 2015 (31 December 2014: loss for the year would have been UAH 15,847 thousand higher/lower), 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 5,188 thousand lower/higher as at 31 December 2015 (31 December 2014: loss for the year would have been UAH 1,753 thousand lower/higher), primarily due to increase/decrease in interest expense on variable interest rate liabilities.

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

31 Financial Risk Management (continued)

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

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

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

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, if otherwise stated.

31 Financial Risk Management (continued)

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 profit or loss and equity as at the reporting date would not be significantly influenced by changes in early repayment rates, since such loans are carried at amortised cost, and loan amount at early repayment is equal or close to amortised cost of loans and advances to customers.

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

| <i>In thousands of hryvnias</i> | 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 balance sheet position | 2,137,735 | (1,338,205) | 30,426 | 829,956 |
| Credit related commitments | 44,024 | 13,112 | - | 57,136 |

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

31 Financial Risk Management (continued)

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

| <i>In thousands of hryvnias</i> | Ukraine | OECD | Other | Total |
|---|------------------|--------------------|---------------|------------------|
| Assets | | | | |
| Cash and cash equivalents | 369,073 | 113,050 | 18,873 | 500,996 |
| Securities at fair value through profit or loss | 117,967 | - | - | 117,967 |
| Due from banks | 6,388 | - | 66 | 6,454 |
| Loans and advances to customers | 2,892,948 | 21 | 55 | 2,893,024 |
| Investment securities available for sale | 809,288 | - | - | 809,288 |
| Securities held to maturity | 859,398 | - | - | 859,398 |
| Other financial assets | 15,149 | 18 | 1 | 15,168 |
| Total financial assets | 5,070,211 | 113,089 | 18,995 | 5,202,295 |
| Non-financial assets | 607,878 | 2,172 | 142 | 610,192 |
| Total assets | 5,678,089 | 115,261 | 19,137 | 5,812,487 |
| Liabilities | | | | |
| Due to banks | 25,277 | 1,161,229 | - | 1,186,506 |
| Customer accounts | 3,537,095 | 77,138 | 4,688 | 3,618,921 |
| Other financial liabilities | 22,618 | 1,397 | - | 24,015 |
| Subordinated debt | - | 586,886 | - | 586,886 |
| Total financial liabilities | 3,584,990 | 1,826,650 | 4,688 | 5,416,328 |
| Non-financial liabilities | 32,164 | 2 | 2 | 32,168 |
| Total liabilities | 3,617,154 | 1,826,652 | 4,690 | 5,448,496 |
| Net balance sheet position | 2,060,935 | (1,711,391) | 14,447 | 363,991 |
| Credit related commitments | 14,616 | 25,003 | - | 39,619 |

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The 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 invests in portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

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

31 Financial Risk Management (continued)

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

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

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

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

| <i>In thousands of hryvnias</i> | 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, guarantees and letters of credit issued | 57,136 | - | - | - | - | 57,136 |
| Total potential future payments under financial liabilities | 4,007,157 | 883,807 | 2,077,995 | 565,092 | 34,815 | 7,568,866 |

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 at 31 December 2014 is presented as follows:

| <i>In thousands of hryvnias</i> | On demand and less than 1 month | 1 - 3 months | 3 - 12 months | 12 months - 5 years | Over 5 years | Total |
|---|---------------------------------|----------------|------------------|---------------------|---------------|------------------|
| Liabilities | | | | | | |
| Due to banks | 494,620 | 3,639 | 202,976 | 511,442 | - | 1,212,677 |
| Customer accounts | 2,380,599 | 428,468 | 808,935 | 41,745 | 35,838 | 3,695,585 |
| Subordinated debt | - | - | - | 604,351 | - | 604,351 |
| Other financial liabilities | 23,031 | 86 | 597 | 300 | 1 | 24,015 |
| Credit related commitments, guarantees and letters of credit issued | 39,619 | - | - | - | - | 39,619 |
| Total potential future payments under financial liabilities | 2,937,869 | 432,193 | 1,012,508 | 1,157,838 | 35,839 | 5,576,247 |

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

Customer accounts are classified based on remaining contractual maturities in the above analysis. However, in accordance with Ukrainian Civil Code, 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. Certain corporate deposit contracts envisage a possibility of early withdrawals. 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.

31 Financial Risk Management (continued)

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 2015:

| <i>In thousands of hryvnias</i> | On demand and less than 1 month | 1 - 3 months | 3 - 12 months | 12 months - 5 years | Over 5 years | Total |
|---|---------------------------------|----------------|----------------|---------------------|----------------|------------------|
| 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 |
| At 31 December 2014 | | | | | | |
| Financial assets | 899,952 | 610,184 | 1,600,810 | 1,834,996 | 256,353 | 5,202,295 |
| Financial liabilities | 2,863,616 | 409,729 | 988,125 | 1,126,587 | 28,271 | 5,416,328 |
| Net liquidity gap based on expected maturities | (1,963,664) | 200,455 | 612,685 | 708,409 | 228,082 | (214,033) |
| Spot and forward contracts | | | | | | |
| - inflows | 9,039 | - | - | - | - | 9,039 |
| - outflows | 9,022 | - | - | - | - | 9,022 |

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

Matching and/or controlled mismatching of maturities and interest rates on 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 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.

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 ensure the Bank's ability to continue as a going concern. Management believes that total capital under Bank's management equals the amount of equity as shown in the statement of financial position. Capital under Bank's management amounts to UAH 829,956 thousand as at 31 December 2015 (31 December 2014: UAH 363,991 thousand). The Bank's compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored on the ten day basis. Other objectives of capital management are evaluated annually.

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

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 the date of the financial statements.

32 Capital management (continued)

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

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

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 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 procedures established by the general meeting of its shareholders. Furthermore, effective Ukrainian legislation envisages no restrictions on distribution of the reserve among bank's shareholders upon bank's liquidation after satisfaction of all creditors' claims.

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

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

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|---------------------------------|------------------|----------------|
| Core capital | 613,961 | 297,668 |
| Additional capital | 494,862 | 297,668 |
| Total regulatory capital | 1,108,823 | 595,336 |

As at 31 December 2015 and 31 December 2014, the Bank is not in compliance with the prescribed minimum level of the regulatory capital required by paragraph 2.2, Section II of the NBU Board Resolution No 368 dated 28 August 2001 "Guidance on the procedures for regulating banking activities in Ukraine" (as amended) since the Bank's regulatory capital is below its share capital. In February 2016, the NBU cancelled this requirement.

The Bank's management believes that the risk of sanctions that may be applied to the Bank as a result of the above incompliance is remote.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the 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 1,310 thousand.

At 31 December 2015, the Group was engaged in litigation proceedings with two customers of the Bank who filed a claim against the Bank for damages amounting to UAH 13 million. On the basis of its own estimates and both internal and external professional advice, the Bank's management believes the Bank will not incur significant losses as a result of these claims, accordingly, no provision has been made in these separate financial statements.

33 Contingencies and Commitments (continued)

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 between the National Bank of Ukraine 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 2015, the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 12,869 thousand (31 December 2014: UAH 2,040 thousand) and in respect of intangible assets in the amount of UAH 7,211 thousand (31 December 2014: UAH 13,111 thousand).

The 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 such commitments.

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

Compliance with 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 (EBRD), which terminated in December 2015. In particular, the Bank was required to maintain a certain level of capital to risk weighted assets ratio, highly liquid assets to demand deposits ratio, liquid assets to short-term liabilities ratio, open credit exposure ratio, maximum exposure to related parties to capital ratio, aggregate related party exposure ratio, share of problem loans to gross loans and to be in compliance with the NBU prudential requirements.

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

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the 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.

33 Contingencies and Commitments (continued)

Outstanding credit related commitments are as follows:

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

Credit related commitments are denominated in currencies as follows:

| <i>In thousands of hryvnias</i> | 2015 | 2014 |
|---------------------------------|---------------|---------------|
| Ukrainian hryvnias | 41,284 | 14,425 |
| Euros | 13,504 | 25,194 |
| USD | 2,348 | - |
| Total | 57,136 | 39,619 |

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

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

34 Fair Value Disclosures

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

(a) Recurring fair value measurements

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

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

34 Fair Value Disclosures (continued)

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

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

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

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

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

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

34 Fair Value Disclosures (continued)

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

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

| <i>In thousands of hryvnias</i> | 2015 | | | | 2014 | | | |
|--|---------|------------------|------------------|------------------|---------|----------------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Carrying amount | Level 1 | Level 2 | Level 3 | Carrying amount |
| Assets | | | | | | | | |
| Due from banks | - | 4,097 | - | 4,097 | - | 6,454 | - | 6,454 |
| - Guarantee deposits | - | 4,097 | - | 4,097 | - | 6,454 | - | 6,454 |
| Loans and advances to customers | - | - | 4,040,274 | 4,139,680 | - | - | 2,712,662 | 2,893,024 |
| - Corporate loans | - | - | 2,619,370 | 2,684,592 | - | - | 1,761,103 | 1,774,470 |
| - Loans to individuals - car and consumer loans | - | - | 988,638 | 1,006,276 | - | - | 610,230 | 721,551 |
| - Loans to individuals – mortgage loans | - | - | 432,266 | 448,812 | - | - | 306,250 | 361,924 |
| - Reverse sale and re-purchase agreements | - | - | - | - | - | - | 35,079 | 35,079 |
| Investment securities held to maturity | - | 1,057,814 | - | 1,049,724 | - | 873,503 | - | 859,398 |
| Other financial assets | - | 30,596 | - | 30,596 | - | 15,168 | - | 15,168 |
| - Receivables from operations with clients and banks | - | 20,485 | - | 20,485 | - | 9,363 | - | 9,363 |
| - Accrued income | - | 4,646 | - | 4,646 | - | 5,497 | - | 5,497 |
| - Receivables from operations with plastic cards | - | 5,465 | - | 5,465 | - | 308 | - | 308 |
| Total | - | 1,092,507 | 4,040,274 | 5,224,097 | - | 895,125 | 2,712,662 | 3,774,044 |

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 | 2015 | | | | 2014 | | | |
|--|---------|------------------|---------|------------------|---------|------------------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Carrying amount | Level 1 | Level 2 | Level 3 | Carrying amount |
| Liabilities | | | | | | | | |
| <i>Due to banks</i> | - | 1,157,619 | - | 1,157,739 | - | 1,131,875 | - | 1,186,506 |
| - Correspondent accounts of other banks | - | 221,705 | - | 221,705 | - | 474,242 | - | 474,242 |
| - Term placements and loans of other banks | - | 935,914 | - | 936,034 | - | 657,633 | - | 712,264 |
| Customer accounts | - | 5,599,702 | - | 5,654,337 | - | 3,597,118 | - | 3,618,921 |
| - Current/settlement accounts of legal entities | - | 1,987,240 | - | 1,987,240 | - | 1,312,013 | - | 1,312,013 |
| - Term deposits of legal entities | - | 942,129 | - | 954,038 | - | 356,455 | - | 356,729 |
| - Current/demand accounts of individuals | - | 721,963 | - | 721,963 | - | 411,390 | - | 411,390 |
| - Term deposits of individuals | - | 1,948,370 | - | 1,991,096 | - | 1,517,260 | - | 1,538,789 |
| Other financial liabilities | - | 46,839 | - | 46,839 | - | 24,015 | - | 24,015 |
| - Funds in settlements | - | 20,681 | - | 20,681 | - | 11,455 | - | 11,455 |
| - Other accrued liabilities | - | 14,185 | - | 14,185 | - | 10,572 | - | 10,572 |
| - Funds of the Deposit Guarantee Fund for reimbursement of deposits from other banks | - | 11,833 | - | 11,833 | - | - | - | - |
| - Provision for credit related commitments | - | 97 | - | 97 | - | 996 | - | 996 |
| - Other | - | 43 | - | 43 | - | 992 | - | 992 |
| Subordinated debt | - | 490,052 | - | 516,946 | - | 443,143 | - | 586,886 |
| Total | - | 7,294,212 | - | 7,375,861 | - | 5,196,151 | - | 5,416,328 |

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 have two subcategories: (i) assets designated as such upon initial recognition, and (ii) assets classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2015:

| | Loans and re- ceivables | Assets avail- able for sale | Assets desig- nated at FVTPL | Investment securities held to ma- turity | Total |
|--|----------------------------|--------------------------------|---------------------------------|---|------------------|
| <i>In thousands of hryvnias</i> | | | | | |
| 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 |

35 Presentation of Financial Instruments by Measurement Categories (continued)

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

| | Loans and re- ceivables | Assets avail- able for sale | Assets desig- nated at FVTPL | Investment securities held to ma- turity | Total |
|--|----------------------------|--------------------------------|---------------------------------|---|------------------|
| <i>In thousands of hryvnias</i> | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | 500,996 | - | - | - | 500,996 |
| Securities at fair value through profit or loss | - | - | 117,967 | - | 117,967 |
| Due from banks | | | | | |
| - Guarantee deposits | 6,454 | - | - | - | 6,454 |
| Loans and advances to customers | | | | | |
| - Corporate loans | 1,774,470 | - | - | - | 1,774,470 |
| - Loans to individuals – car and consumer loans | 721,551 | - | - | - | 721,551 |
| - Loans to individuals – mortgage loans | 361,924 | - | - | - | 361,924 |
| Reverse sale and repurchase agreements | 35,079 | - | - | - | 35,079 |
| Investment securities available for sale | - | 809,288 | - | - | 809,288 |
| Investment securities held to maturity | - | - | - | 859,398 | 859,398 |
| Other financial assets | 15,168 | - | - | - | 15,168 |
| Total financial assets | 3,415,642 | 809,288 | 117,967 | 859,398 | 5,202,295 |

As of 31 December 2015 and 31 December 2014, 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 2015, the outstanding balances with related parties were as follows:

| | Parent company | Entities under common control | Subsidiary | Key management personnel |
|---|----------------|-------------------------------|------------|--------------------------|
| <i>In thousands of hryvnias</i> | | | | |
| 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 placements 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 rate: 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:

| | Parent company | Entities under common control | Subsidiary | Key management personnel |
|---|----------------|-------------------------------|------------|--------------------------|
| <i>In thousands of hryvnias</i> | | | | |
| Interest income | - | - | - | 27 |
| Interest expense | (28,312) | (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:

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

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

36 Related party transactions (continued)

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

| <i>In thousands of hryvnias</i> | Parent company | Entities under common control | Subsidiary | Key manage- ment per- sonnel |
|--|-------------------|--|------------|---------------------------------------|
| 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, providing that the parent company will use this loan to increase the share capital of the Bank. These funds were received by the Bank and are recorded as at the date of preparation of these financial statements 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 totaling UAH 330,000 thousand, having paid a nominal value of shares (0.01 hryvnia per share).

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

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

| <i>In thousands of hryvnias</i> | Parent company | Entities under common control | Subsidiary | Key management personnel |
|--|-------------------|--|------------|--------------------------------|
| Correspondent accounts with other banks | 12,593 | - | - | - |
| Gross amount of loans and advances to customers (contractual interest rate: in USD – 2.8%) | - | - | - | 306 |
| Provision for Impairment of loans and advances to customers | - | - | - | (54) |
| Other assets | 718 | - | - | - |
| Correspondent accounts and overnight placements of other banks | 448,964 | - | - | - |
| Term placements and loans from other banks (contractual interest rate: in USD – 3.15%, in EUR – 0.15%) | 693,816 | - | - | - |
| Customer accounts (contractual interest rate: in USD: min.– 0.1% max. - 4%; in EUR: 0.5%; in UAH: min.– 0.1%, max - 16%) | - | 42,365 | 7,224 | 188 |
| Subordinated debt (contractual nominal interest rate: in USD – 1.0695%) | 586,886 | - | - | - |
| Other liabilities | 77 | 446 | - | 1,055 |

36 Related party transactions (continued)

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

| | Parent com- pany | Entities under common control | Subsidiary | Key management personnel |
|---|------------------------|--|------------|--------------------------------|
| <i>In thousands of hryvnias</i> | | | | |
| Interest income | - | - | - | 7 |
| Interest expense | (30,263) | (6,449) | (286) | (9) |
| Other income | - | 19,975 | - | - |
| Provision for impairment of loans and investments | - | - | (4,084) | (30) |
| Fee and commission income | 6 | 729 | 256 | 11 |
| Fee and commission expense | (389) | - | - | - |
| Other expenses | (461) | (2,951) | - | - |

In March 2014 the Bank increased the share capital of the subsidiary by the amount of UAH 1,400 thousand. Since during 2014 the subsidiary incurred significant losses, the Bank made full provision for investment. As at 31 December 2014, other rights and obligations on transactions with related parties were as follows:

| | Parent com- pany | Entities under com- mon con- trol | Subsidiary | Key manage- ment per- sonnel |
|---------------------------------|------------------------|--|------------|---------------------------------------|
| <i>In thousands of hryvnias</i> | | | | |
| Loan commitments received | 99,082 | - | - | - |
| Other loan commitments granted | 25,003 | - | - | - |
| Collateral received | - | - | - | 601 |

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

| | Parent com- pany | Entities under common control | Subsidiary | Key manage- ment per- sonnel |
|--|------------------------|--|------------|---------------------------------------|
| <i>In thousands of hryvnias</i> | | | | |
| Amounts repaid by the related parties for the period | - | - | - | (34) |

As disclosed in Note 32, in 2014 the Bank received non-repayable financial assistance in the amount of USD 6,021 thousand from its parent company (PKO BP S.A.) aimed to prevent incompliance with capital requirements. This financial assistance and related income tax in the amount of UAH 9,437 thousand were recognised in equity.

During 2014 the Bank sold to a related party the right to the cash flows from a portfolio of fixed rate loans with gross book value before impairment provision of UAH 356,781 thousand and net book value of UAH 207,606 thousand. As a result of this transaction the Bank recognised profit of UAH 34,530 thousand that reflects the effect of assets disposed on profit or loss for the reporting year. There were no loan sale agreements with related parties in 2015.

36 Related party transactions (continued)

Key management compensation is presented below:

| <i>In thousands of hryvnias</i> | 2015 | | 2014 | |
|---|---------------|-------------------|---------------|-------------------|
| | Expense | Accrued liability | Expense | Accrued liability |
| <i>Short-term benefits:</i> | | | | |
| - Salaries | 20,150 | 684 | 12,223 | 470 |
| - Annual bonus | 4,294 | - | 83 | - |
| - Termination bonus | 824 | 756 | 169 | 395 |
| <i>Post-employment benefits:</i> | | | | |
| - State pension and social security costs | 656 | 209 | 641 | 190 |
| Total | 25,924 | 1,649 | 13,116 | 1,055 |

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

37 Subsequent events

Subsequent to the reporting date hryvnia has been essentially devaluated, in particular, as at 9 March 2016 the exchange rate of hryvnia to USD has increased to UAH 26.50 per USD 1 compared to UAH 24.00 per USD 1 as at 31 December 2015.