Translation from Ukrainian original

PUBLIC JOINT STOCK COMPANY
"FIRST UKRAINIAN INTERNATIONAL BANK"

Financial statements

Year ended 31 December 2016
together with independent auditor's report

Contents

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Independent auditor's report

To the Shareholders of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Opinion

We have audited the financial statements of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the Bank), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 2 to the financial statements, which describes the operating environment in Ukraine. The circumstances referred to in Note 2 could continue to adversely affect the Bank's financial position and performance in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Allowance for impairment of loans to customers

The appropriateness of allowance for impairment of loans to customers is a matter of most significance in our audit being the key area of judgement for management. In addition, the balance of allowance for impairment of loans to customers of UAH 10,450,248 thousand is material to the financial statements. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various assumptions and factors including the financial standing of borrowers, expected future cash flows and fair value of collateral. The use of different assumptions could produce significantly different estimates of impairment of loans to customers. Associated risk management disclosures in Note 10 to the financial statements are complex and dependent on the data quality.

We assessed and tested the design and operating effectiveness of the Bank's internal controls over impairment calculations including the quality of underlying data and systems. For allowance for impairment of loans to customers calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, and valuation of underlying collateral. For allowance for impairment of loans to customers calculated on a collective basis we tested the underlying models, assessed the appropriateness and tested the accuracy of inputs to those models, such as probability of default and recovery rates. We analysed associated disclosures in Note 10 to the financial statements in respect of allowance for impairment of loans to customers.

Valuation of own buildings in Eastern regions of Ukraine

Significant share of the Bank's buildings is located in the Eastern regions of Ukraine. As disclosed in Note 5 to the financial statements, in 2016, management engaged an independent appraiser who performed revaluation of those buildings. Valuation of a building involves judgement to select a valuation model to be used, identify proper comparatives and discount rates. As a result, valuation of buildings in the Eastern regions of Ukraine was significant to our audit.

Our procedures included assessment, supported by certified specialists, of the estimates and assumptions made by the appraisers and testing input data used by the appraisers in their valuation of the buildings.

Other Information in the Bank's Annual Report

Other information consists of the information included in the Annual Report of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and the Supervisory Board for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Bank’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Yulia Studynska.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

13 March 2017

O.M. Svistich
General Director

Україна * Товариство з обмеженою відповідальністю * м. Київ *
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Ідентифікаційний код 33306921

Y.S. Studynska
Auditor's certificate Series B No. 0131
valid till 24 December 2019

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of financial position as at 31 December 2016

(in thousands of Ukrainian hryvnias)

	Notes	2016	2015
Assets			
Cash on hand and in transit	6	1,162,368	1,244,442
Balance with the National Bank of Ukraine	7	1,213,522	897,908
Due from other banks	8	5,561,964	4,283,476
Securities:	9		
- at fair value through profit or loss		277,873	263,387
- available-for-sale		9,132,655	2,320,493
Loans to customers	10	24,755,755	26,287,616
Current income tax asset		45,405	45,405
Other assets	12	528,517	383,496
Property and equipment	11	1,213,395	1,209,023
Investment property	11	185,857	188,554
Intangible assets	11	287,578	243,299
Deferred tax asset	28	187,719	276,992
Total assets		**44,552,608**	**37,644,091**
Liabilities			
Due to the National Bank of Ukraine	13	–	485,426
Due to other banks	14	1,147,889	224,827
Customer accounts	15	33,185,516	27,584,757
Deposit certificates issued	16	691,371	–
Eurobonds issued	17	4,290,540	4,722,461
Other borrowed funds	18	18,995	26,289
Other liabilities	19	679,252	441,508
Subordinated debt	20	490,750	492,174
Total liabilities		**40,504,313**	**33,977,442**
Equity			
Share capital	22	3,294,492	3,294,492
Share premium	22	101,660	101,660
Revaluation reserve for property and equipment	22	509,866	538,213
Revaluation reserve for securities available-for-sale	22	30,155	(2,153)
Reserve fund	22	1,475,430	1,475,430
Accumulated deficit	22	(1,363,308)	(1,740,993)
Total equity		**4,048,295**	**3,666,649**
Total liabilities and equity		**44,552,608**	**37,644,091**

Signed on behalf of the Management Board on 13 March 2017

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 65 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Income statement for the year ended 31 December 2016

(in thousands of Ukrainian hryvnias)

	Notes	2016	2015
Interest income	24	5,045,757	5,247,732
Interest expense	24	(2,913,481)	(3,101,233)
Net interest income		**2,132,276**	**2,146,499**
Allowance for loan impairment	8, 10	(1,342,526)	(4,821,208)
Net interest income/(loss) after allowance for loan impairment		**789,750**	**(2,674,709)**
Fee and commission income	25	1,329,330	1,222,954
Fee and commission expense	25	(348,397)	(313,665)
Net fee and commission income		**980,933**	**909,289**
Net gains from operations with foreign currencies:			
- dealing		391,190	587,132
- translation differences		72,267	940,275
Net gains/(losses) from securities designated at fair value through profit or loss:			
- dealing		727	4,752
- change in fair value		(2,251)	11,373
Net gains/(losses) from securities available-for-sale:			
- dealing		1,959	(2,426)
- impairment losses		–	(1,519)
Net gains/(losses) from revaluation of investment property	11	3,422	(44,243)
Net losses from derivative financial instruments		(34,190)	(332,246)
Net losses on restructuring of mortgage loans to individuals in foreign currency	10	(28,508)	(29,346)
Charge to provision for commitments, guarantees and letters of credit	31	2,513	(22)
Other income	26	109,636	121,868
Operating income/(loss)		**2,287,448**	**(509,822)**
Operating expenses	27	(1,839,874)	(1,645,628)
Income/(loss) before income tax		**447,574**	**(2,155,450)**
Income taxes (expense)/benefit	28	(80,563)	402,980
Net income/(loss) for the reporting period		**367,011**	**(1,752,470)**
Income/(loss) per share (in Ukrainian hryvnias per share)	**33**	**25.62**	**(122.35)**

Signed on behalf of the Management Board on 13 March 2017

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 65 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of comprehensive income for the year ended 31 December 2016

(in thousands of Ukrainian hryvnias)

	2016	2015
Net income/(loss) for the reporting period	**367,011**	**(1,752,470)**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised gains/(losses) on investment securities available-for-sale	41,359	(24,077)
Realised (losses)/gains on investment securities available-for-sale reclassified to the income statement	(1,959)	2,426
Income tax related to the components of other comprehensive income	(7,092)	1,625
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**32,308**	**(20,026)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of buildings	(16,055)	(70,629)
Income tax related to the components of other comprehensive income	(1,618)	(21,868)
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods	**(17,673)**	**(92,497)**
Other comprehensive income/(loss) for the year, net of tax	**14,635**	**(112,523)**
Total comprehensive income/(loss) for the reporting period	**381,646**	**(1,864,993)**

Signed on behalf of the Management Board on 13 March 2017

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 65 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of cash flows for the year ended 31 December 2016

(in thousands of Ukrainian hryvnias)

	2016	2015
Cash flows from operating activities		
Interest income received	4,767,416	4,112,750
Interest expense paid	(2,888,680)	(3,175,852)
Fee and commission income received	1,379,155	1,243,386
Fee and commission expense paid	(351,218)	(297,320)
Income received from trading in foreign currencies	391,129	587,132
Gains from securities	2,686	4,752
Losses from financial derivatives	(1,838)	(337,419)
Other income received	105,187	109,345
Operating expenses paid	(1,599,009)	(1,397,788)
Cash flows from operating activities before changes in operating assets and liabilities	**1,804,828**	**848,986**
Net (increase)/decrease in operating assets:		
Mandatory reserve balance with the National Bank of Ukraine	(668,840)	489,340
Due from other banks	(488,443)	(558,298)
Securities at fair value through profit or loss	14,237	(230,745)
Loans to customers	1,817,020	3,756,302
Other assets	18,741	207,661
Net increase/(decrease) in operating liabilities		
- Due to the National Bank of Ukraine	(485,426)	(704,620)
Due to other banks	876,265	(88,599)
Customer accounts	3,933,993	(3,473,965)
Deposit certificates issued	655,845	–
Other liabilities	156,996	112,063
Net cash from / (used in) operating activities	**7,635,216**	**358,125**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(247,590)	(506,838)
Proceeds from sale of property and equipment and intangible assets	19,227	159,732
Purchase of securities available-for-sale	(56,177,823)	(57,719,046)
Proceeds from sale of securities available-for-sale	50,765,312	58,575,344
Net cash from investing activities	**(5,640,874)**	**509,192**
Cash flows from financing activities		
Redemption of other borrowed funds and eurobonds	(1,051,383)	(238,075)
Net cash used in financing activities	**(1,051,383)**	**(238,075)**
Effect of exchange rate changes on cash and cash equivalents	327,186	940,276
Net increase in cash and cash equivalents	**1,270,145**	**1,569,518**
Cash and cash equivalents at the beginning of the year	5,749,868	4,180,350
Cash and cash equivalents at the end of the year (Note 6)	**7,020,013**	**5,749,868**

Signed on behalf of the Management Board on 13 March 2017

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 65 form an integral part of these financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of changes in equity for the year ended 31 December 2016

(in thousands of Ukrainian hryvnias)

	Share capital	Share premium	Merger reserve	Revaluation reserve for property and equipment	Revaluation reserve for securities available-for-sale	Reserve fund	Retained earnings / (Accumulated deficit)	Total equity
Balance at 1 January 2015	**3,427,350**	**56,798**	**34,266**	**642,188**	**17,873**	**–**	**1,353,167**	**5,531,642**
Net loss for the year	–	–	–	–	–	–	(1,752,470)	(1,752,470)
Other comprehensive income for the year	–	–	–	(92,497)	(20,026)	–	–	(112,523)
Total comprehensive loss for the year	**–**	**–**	**–**	**(92,497)**	**(20,026)**	**–**	**(1,752,470)**	**(1,864,993)**
Transfer of the amount of IAS 29 application effect	(132,858)	44,862	–	–	–	–	87,996	–
Transfer of merger reserve	–	–	(34,266)	–	–	–	34,266	–
Transfer to reserve fund	–	–	–	–	–	1,475,430	(1,475,430)	–
Transfer of property and equipment revaluation	–	–	–	(11,478)	–	–	11,478	–
Balance at 31 December 2015	**3,294,492**	**101,660**	**–**	**538,213**	**(2,153)**	**1,475,430**	**(1,740,993)**	**3,666,649**
Net income for the year	–	–	–	–	–	–	367,011	367,011
Other comprehensive income for the year	–	–	–	(17,673)	32,308	–	–	14,635
Total comprehensive income for the year	**–**	**–**	**–**	**(17,673)**	**32,308**	**–**	**367,011**	**381,646**
Transfer of property and equipment revaluation	–	–	–	(10,674)	–	–	10,674	–
Balance at 31 December 2016	**3,294,492**	**101,660**	**–**	**509,866**	**30,155**	**1,475,430**	**(1,363,308)**	**4,048,295**

Signed on behalf of the Management Board on 13 March 2017

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 65 form an integral part of these financial statements.

(in thousands of Ukrainian hryvnias)

1. Principal activities

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, settlement services, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The Bank is a member of Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate #102 dated 29 September 2009), which operates according to the Law of Ukraine #2740-III "On Individuals Deposits Guarantee Fund". The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (31 December 2015: UAH 200 thousand).

As at 31 December 2016 and 2015, the Bank's shareholders are "SCM FINANCE" (92.2% of share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of share capital) and an individual (0.1% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

The Bank's legal address is: 4 Andriivska Street, Kyiv, Ukraine. As at 31 December 2016, the Bank had 6 regional centers and 156 branches throughout Ukraine (31 December 2015: 6 regional centers and 151 branches throughout Ukraine).

2. Operating environment of the Bank

The Bank conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. In 2016, the Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country. Stabilization of the Ukrainian economy in the foreseeable future depends on success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

During 2016, the official UAH/US dollar exchange rate established by the National Bank of Ukraine has increased by 13.29% from UAH/US dollar 24.000667 as at 1 January 2016 to UAH/US dollar 27.190858 as at 31 December 2016. As some of the loans were issued in foreign currencies, UAH depreciation against these currencies has a negative impact on borrowers' ability to service the loans. In addition, factors such as decrease of liquidity and profitability of the corporate sector adversely affect debt servicing level of the Bank's loan portfolio. Events taking place in the economy, also lead to a decrease in the value of collateral for loans and other active operations of the Bank. The management analyses the credit impairment considering the above mentioned risk factors.

During the year, the liquidity of the banking sector has been improving as a result of return of customer accounts. Also, during 2016, the NBU has gradually decreased the key rate from 22% to 14%. All these measures predetermined the decreasing of interest rates on deposits by the banks.

In 2016, the banking system of Ukraine continued to be characterized by a structural surplus of liquidity, stabilisation of foreign currency denominated funds, decrease in cost of resources, low capitalization level and incurred losses. The level of deposits in the banking system as a whole increased by 13.1% as compared to 2015. The demand for credit resources during 2016 remained low, which was due to low economic activity, rather high interest rates and the strengthening of banks' claims on borrowers. In response to low lending the banks built up a portfolio of government securities. At the end of 2016, the aggregate share of the banks' investments in securities was 24.6% of net assets of the sector.

Since 2014 the Bank was not able to carry out its operating activities in the Crimea and certain areas of the Donetsk and Lugansk regions and was forced to relocate its activities from these regions. After the annexation of the Crimea, the Bank has closed all of its 10 branches in the area. Additionally, the Bank closed 42 branches that were located in regions outside the control of the Government of Ukraine in Donetsk and Lugansk regions. As at 31 December 2016, the carrying value of loans to customers who operate in conflict zones was UAH 1,338,712 thousand, or 5.41% of the carrying value of loans to customers (31 December 2015: UAH 2,923,245 thousand, or 11.12% of the carrying value of loans to customers).

2. Operating environment of the Bank (continued)

Known and estimated results of the above factors on the financial position and performance of the Bank during the reporting period were taken into account while preparing these financial statements. The Bank's management monitors the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further negative developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Bank's financial position and performance in a manner not currently determinable.

3. Basis of preparation

General

These financial statements are prepared in accordance with the International Financial Reporting Standards (the "IFRS") under the historical cost convention except for financial instruments and investment property carried at fair value and premises and works of arts carried at revalued amounts. These policies have been consistently applied by the Bank to all the periods presented, unless otherwise stated.

4. Summary of significant accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

4. Summary of significant accounting policies (continued)

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Bank. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at fair value through profit or loss or designated as available-for-sale financial assets. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, income is recognised through the amortisation process.

Securities available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial recognition available-for-sale financial assets are measured at fair value, except for shares carried at cost, with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the profit or loss. Interest calculated using the effective interest method is recognised in the income statement.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, deposit certificates issued by the National Bank of Ukraine with maturity up to 1 working day, cash on hand and in transit and balances with the NBU, excluding mandatory reserve balances and accrued interests. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits.

Precious metals

The Bank acquires and sells precious metals during short period as the result of short-period price fluctuations and margin of the dealer. Precious metals are accounted as other assets, and related income or loss is recognised in the income statement.

Repossessed collateral

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

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Sale and repurchase agreements

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position. 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 securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest yield method.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/ (losses) from trading securities or net gains/ (losses) from foreign currencies, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than for a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, customer accounts, subordinated debt, Eurobonds issued and other borrowed funds. Gains and losses are recognised in the income statement when the borrowings are derecognised, expense is recognised through the amortisation process.

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. If the Bank is a lessee, then lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

If the Bank is a lessor, assets subject to operating leases are presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

4. Summary of significant accounting policies (continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (an incurred "loss event") and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or Bank of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with inability to settle a liability (default).

Due from other banks and loans to customers

For due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If an exposure written off is later recovered, the recovery is credited to allowance for loan impairment in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods on which historical loss experience is based and to remove the effects of past conditions that do not exist currently.

4. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Restructure of financial assets

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral with the help of extending maturity and agreeing new loan terms. Once, the terms of loan are restructured, the loan is not considered as overdue. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Results on restructuring are recognised in the income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Control is retained if counterparty has no practical possibility to sell the assets to third party, not imposing any limits on sale.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

4. Summary of significant accounting policies (continued)

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 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. At each reporting date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date. Any increase in the liability relating to financial guarantees is taken to the income statement.

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. When a loss is considered probable, provisions are recorded against other credit related commitments.

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 reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the income statement 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. Taxes, other than on income, are recorded within 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 or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Property and equipment

Property and equipment, other than premises and items of arts, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and any accumulated impairment, where required.

Following initial recognition at cost, the Bank's premises and works of arts are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for premises and recognised in other comprehensive income.

When an item of premises is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to premises or leasehold improvements at their carrying value. Construction in progress is not depreciated until the asset is available for use.

4. Summary of significant accounting policies (continued)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, management of the Bank 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 and 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).

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Depreciation of an asset begins from the date of commissioning. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2%-5%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20%-33%	

Works of arts are not amortised. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Intangible assets

All of the Bank's intangible assets have a definite useful life and include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if 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 and licences are amortised on a straight line basis over expected useful lives of 3 to 10 years.

Investment property

Investment property is property, which is held by and not occupied by the Bank, to earn rental income or for capital appreciation.

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date.

Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in gains less losses on revaluation of investment property in the year in which they arise.

If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

4. Summary of significant accounting policies (continued)

Provisions for contingencies

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Retirement and other employee benefit obligations

The Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank has no other post-retirement benefit plans.

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. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

Segment reporting

Segment reporting comprises the following operating segments: Corporate banking, Retail banking, Distressed assets management, Investment banking and unallocated.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Interest and similar income and expense

Interest income and expense are recorded in the income statement for all financial instruments measured at amortised cost and interest bearing securities at the effective interest method. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

Fees, commissions and other income and expense items, including fees for issuance of guarantees, 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.

Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Foreign currency translation

The Ukrainian hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Amendments of the financial statements after issue

The Bank's shareholders have the power to amend the financial statements after issue.

4. Summary of significant accounting policies (continued)

New accounting pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- ► The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- ► The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- ► The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Bank.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Bank.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

Transfers of Investment Property - Amendments to IAS 40

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Bank is considering the implications of the above standards and amendments, the impact on the Bank and the timing of their adoption by the Bank.

Changes in classification of amounts in financial statements for the year ended 31 December 2015

While preparing these financial statements, the Bank changed the classification of certain groups of the balance. Changes for the year ended 31 December 2015 are presented below:

Loans to customers (Note 10)

	As previously reported	Reclassification	As corrected
Loans to individuals			
Mortgage loans	3,527,969	4,777	3,532,746
Consumer loans	2,853,449	(3,696)	2,849,753
Car loans	333,027	(1,081)	331,946

Changes in allowance for impairment:

	As previously reported			Reclassification			As corrected		
	Mortgage loans	Car loans	Consumer loans	Mortgage loans	Car loans	Consumer loans	Mortgage loans	Car loans	Consumer loans
Allowance for impairment of loan portfolio at 1 January 2015	**1,642,331**	**167,361**	**1,027,082**	**(30,137)**	**(643)**	**30,780**	**1,612,194**	**166,718**	**1,057,862**
Charge/(reversal) to the allowance for impairment during the year	622,064	35,460	356,390	(6,660)	(256)	6,916	615,404	35,204	363,306
Recovery of loans written off in previous years	(194)	(108)	(9,993)	–	–	–	(194)	(108)	(9,993)
Loans written off during the year as uncollectable	(216,705)	(4,756)	(82,169)	–	–	–	(216,705)	(4,756)	(82,169)
Translation differences	646,254	61,128	11,715	(1,229)	(136)	1,365	645,025	60,992	13,080
Allowance for impairment of loan portfolio at 31 December 2015	**2,693,750**	**259,085**	**1,303,025**	**(38,026)**	**(1,035)**	**39,061**	**2,655,724**	**258,050**	**1,342,086**

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Changes in classification of amounts in financial statements for the year ended 31 December 2015 (continued)

	As previously reported			Reclassification			As corrected		
	Mortgage loans	Car loans	Consumer loans	Mortgage loans	Car loans	Consumer loans	Mortgage loans	Car loans	Consumer loans
Allowance recognised for loans individually determined to be impaired	882,300	4,138	–	(33,099)	–	33,099	849,201	4,138	33,099
Allowance recognised for loans collectively determined to be impaired	1,801,374	254,245	1,247,642	(5,261)	(1,038)	6,299	1,796,113	253,207	1,253,941
Allowance recognised on collective basis for loans without specific evidence of impairment	10,076	702	55,383	334	3	(337)	10,410	705	55,046
Total recognised allowance for loan impairment	**2,693,750**	**259,085**	**1,303,025**	**(38,026)**	**(1,035)**	**39,061**	**2,655,724**	**258,050**	**1,342,086**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	1,147,820	4,138	–	(37,231)	–	37,231	1,110,589	4,138	37,231
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	2,122,443	278,484	1,279,764	(4,901)	(1,194)	6,095	2,117,542	277,290	1,285,859
Gross amount of loans without specific evidence of impairment, before deducting any impairment allowance	257,706	50,405	1,573,685	46,909	113	(47,022)	304,615	50,518	1,526,663
Gross amount of loans before deducting any impairment allowance	**3,527,969**	**333,027**	**2,853,449**	**4,777**	**(1,081)**	**(3,696)**	**3,532,746**	**331,946**	**2,849,753**

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Changes in classification of amounts in financial statements for the year ended 31 December 2015 (continued)

Credit quality of portfolio:

	As previously reported			Reclassification			As corrected		
	Mortgage loans	Car loans	Consumer loans	Mortgage loans	Car loans	Consumer loans	Mortgage loans	Car loans	Consumer loans
Without individual evidence of impairment									
Neither past due nor impaired									
- high rating	60,292	34,799	67,932	2,584	–	(2,584)	62,876	34,799	65,348
- standard rating	67,506	7,787	1,008,938	17,083	(47)	(17,036)	84,589	7,740	991,902
- below standard rating	92,054	2,803	341,028	21,673	103	(21,776)	113,727	2,906	319,252
Total neither past due nor impaired	**219,852**	**45,389**	**1,417,898**	**41,340**	**56**	**(41,396)**	**261,192**	**45,445**	**1,376,502**
Past due but not impaired									
- less than 30 days overdue	21,077	3,761	102,118	5,434	50	(5,484)	26,511	3,811	96,634
- 31 to 90 days overdue	16,777	1,255	40,527	134	7	(141)	16,911	1,262	40,386
- 91 to 180 days overdue	–	–	13,122	–	–	–	–	–	13,122
- 181 to 360 days overdue	–	–	1	–	–	–	–	–	1
- more than 360 days overdue	–	–	21	–	–	–	–	–	21
Total past due but not individually impaired	**37,854**	**5,016**	**155,789**	**5,568**	**57**	**(5,625)**	**43,422**	**5,073**	**150,164**
With individual evidence of impairment									
Loans determined to be impaired individually or collectively									
- less than 30 days overdue	32,264	137	5,548	678	–	(678)	32,942	137	4,870
- 31 to 90 days overdue	28,803	62	2,515	(28,294)	–	28,294	509	62	30,809
- 91 to 180 days overdue	24,671	1,429	38,270	158	25	(183)	24,829	1,454	38,087
- 181 to 360 days overdue	88,716	4,109	178,860	(1,870)	210	1,660	86,846	4,319	180,520
- more than 360 days overdue	3,095,809	276,885	1,054,569	(12,803)	(1,429)	14,232	3,083,006	275,456	1,068,801
Loans determined to be impaired individually or collectively	**3,270,263**	**282,622**	**1,279,762**	**(42,131)**	**(1,194)**	**43,325**	**3,228,132**	**281,428**	**1,323,087**
Less allowance for impairment	**(2,693,750)**	**(259,085)**	**(1,303,025)**	**38,026**	**1,035**	**(39,061)**	**(2,655,724)**	**(258,050)**	**(1,342,086)**
Total loans to customers	**834,219**	**73,942**	**1,550,424**	**42,803**	**(46)**	**(42,757)**	**877,022**	**73,896**	**1,507,667**

Changes in effect of collateral:

	As previously reported				Reclassification				As corrected			
	Over-collateralised assets		Under-collateralised assets		Over-collateralised assets		Under-collateralised assets		Over-collateralised assets		Under-collateralised assets	
	Carrying value net of allowance	Fair value of collateral	Carrying value net of allowance	Fair value of collateral	Carrying value net of allowance	Fair value of collateral	Carrying value net of allowance	Fair value of collateral	Carrying value net of allowance	Fair value of collateral	Carrying value net of allowance	Fair value of collateral
Mortgage loans	473,402	4,869,566	360,817	103,352	32,826	128,091	9,977	6,154	506,228	4,997,657	370,794	109,506
Car loans	62,967	465,218	10,975	877	(236)	(8,101)	190	–	62,731	457,117	11,165	877
Consumer loans	37,470	184,491	1,512,955	43,183	(32,590)	(119,990)	(10,167)	(6,154)	4,880	64,501	1,502,787	37,029

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Changes in classification of amounts in financial statements for the year ended 31 December 2015 (continued)

Other assets (Note 12)

	As previously reported	Reclassification	As corrected
Financial assets			
Other financial assets	26,015	(5,202)	20,813
Total financial assets	**313,670**	**(5,202)**	**308,468**
Non-financial assets			
Prepayments for other taxes	–	2,430	2,430
Other non-financial assets	9,560	2,772	12,332
Total non-financial assets	**69,826**	**5,202**	**75,028**
Total other assets	**383,496**	**–**	**383,496**

Risk management (Note 29)

The table below shows the analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled:

	As previously reported	Reclassification	As corrected
	Up to 1 month	Up to 1 month	Up to 1 month
Assets			
Other financial assets	313,670	(5,202)	308,468

Fair value measurements (Note 30)

Set out below is the comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried at amortised cost in the financial statements:

	As previously reported			Reclassification			As corrected		
	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)
Financial assets									
Loans to customers									
- Corporate loans	23,072,683	22,972,086	(100,597)	–	–	–	23,072,683	22,972,086	(100,597)
- Consumer loans	1,550,424	1,550,424	–	(42,757)	(42,757)	–	1,507,667	1,507,667	–
- Mortgage loans	834,219	779,100	(55,119)	42,803	24,425	(18,378)	877,022	803,525	(73,497)
- Car loans	73,942	49,570	(24,372)	(46)	(270)	(224)	73,896	49,300	(24,596)
Total unrecognized change in unrealized fair value			**(180,088)**	**–**	**(18,602)**	**(18,602)**			**(198,690)**

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy:

31 December 2015	Date of valuation	As previously reported Level 3	Reclassification Level 3	As corrected Level 3
Assets for which fair values are disclosed				
Loans to customers	31 December 2015	26,107,528	(18,602)	26,088,926

5. 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 receivables

The Bank regularly reviews its loan portfolios and accounts receivables 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 repayment of the borrower's debts before the decrease can be identified with an individual loan in that loan portfolio and accounts receivables. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment for groups of loans and accounts receivables. 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.

The Bank regularly assesses assets pledged as collateral for the individually impaired loans to estimate the amount of losses likely to be incurred. The amount of the future cash flow from sale of assets is influenced by the value of the assets and the expected term of sale. A simultaneous 10% decrease in the value of assets held by the Bank as collateral on loans and 50% increase in the expected term of assets' sale would result in an increase in impairment losses of UAH 113,204 thousand (2015: UAH 127,725 thousand) on loans individually determined to be impaired.

A 10% increase in the value of collateral for individually impaired loans would result in a decrease of impairment loss of UAH 61,298 thousand (2015: UAH 68,379 thousand).

Impairment loss on corporate loans, which are collectively assessed for impairment, may be influenced by the probability of borrower's default (PD) and the level of loss incurred when a borrower defaults (LGD). A simultaneous 10% increase in PD and 10% decrease in LGD would result in an increase in impairment losses of UAH 50,064 thousand (2015: UAH 64,624 thousand). A simultaneous 10% decrease in PD and increase in LGD would result in a decrease in impairment losses of UAH 45,724 thousand (2015: UAH 59,286 thousand).

Impairment loss on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in impairment losses of UAH 23,464 thousand (2015: UAH 58,728 thousand). A simultaneous 10% decrease in PD and increase in RR would result in a decrease in impairment losses of UAH 25,582 thousand (2015: UAH 61,040 thousand).

Fair value of own use premises, works of arts and investment property

As stated in Note 4, the Bank's premises, works or arts and investment property are subject to revaluation on a regular basis. Such revaluations are based on the results of work of an independent appraiser. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach. In 2016, the Bank performed revaluation of own premises by engaging independent appraisers. If the price per square meter is 5% higher or lower, the fair value of own premises would be UAH 45,721 thousand higher or lower, respectively (2015: UAH 49,152 thousand), and the fair value of investment property would be UAH 9,293 thousand higher or lower, respectively (2015: UAH 9,428 thousand).

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments at their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is the pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of related party transactions are disclosed in Note 32.

Fair value measurements

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 30.

(in thousands of Ukrainian hryvnias)

6. Cash and cash equivalents

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	2016	2015
Cash on hand and in transit	1,162,368	1,244,442
Current accounts and overnight deposits with other banks (Note 8)	3,713,137	3,007,605
Current accounts and overnight deposits with other banks – interest income accrued (Note 8)	(174)	(87)
Current account with the National Bank of Ukraine (Note 7)	1,213,522	897,908
Current account with the National Bank of Ukraine – mandatory reserve balance (Note 7)	(668,840)	-
Deposit certificates (Note 9)	1,601,050	600,295
Deposit certificates − interest income accrued	(1,050)	(295)
Total cash and cash equivalents	**7,020,013**	**5,749,868**

7. Balance with the National Bank of Ukraine

	2016	2015
Current account with the National Bank of Ukraine, including:	1,213,522	897,908
part of mandatory reserve balance	668,840	-
Total balance with the National Bank of Ukraine	**1,213,522**	**897,908**

In accordance with the NBU requirements, the Bank's mandatory reserve balance is computed as a percentage of certain Bank liabilities for the prior provisioning period.

The Bank shall ensure availability of daily balance at the beginning of the day on the correspondent account with the National Bank of Ukraine of 40% of the mandatory reserve for the previous month. As at 31 December 2016 the estimated amount of mandatory reserve is UAH 668,840 thousand (31 December 2015: UAH 570,903 thousand).

As at 31 December 2016, the National Bank of Ukraine excluded the paragraph on possibility to cover the Bank's mandatory reserve requirements by 100% of the Bank's accounts balances with PJSC "Settlements center on agreements servicing on financial markets" and 75% of cash balances on hand in local currency (31 December 2015: by 100% of the Bank's accounts balances with PJSC "Settlements center on agreements servicing on financial markets" and 75% of cash balances on hand in local currency). As at 31 December 2016, those balances with PJSC "Settlements center on agreements servicing on financial markets" were UAH 57 thousand and balances of cash on hand in local currency were UAH 692,222 thousand (31 December 2015: balances with PJSC "Settlements center on agreements servicing on financial markets" were UAH 57 thousand and balances of cash on hand in local currency used by the Bank to cover mandatory reserves were UAH 682,896 thousand).

8. Due from other banks

	2016	2015
Current accounts and overnight deposits with other banks		
- OECD countries	3,291,134	2,608,497
- domestic	84,302	34,776
- other countries	337,701	364,332
Total current accounts and overnight deposits with other banks	**3,713,137**	**3,007,605**
including accrued interest income	**174**	**87**
Term deposits with other banks, including:		
- OECD countries	1,585,146	984,607
- domestic	249,685	219,779
- other countries	43,327	39,019
- reverse sale and repurchase agreements with other banks	225,531	186,204
Total term deposits with other banks	**2,103,689**	**1,429,609**
Allowance for impairment of due from other banks	*(254,862)*	*(153,738)*
Total due from other banks	**5,561,964**	**4,283,476**

(in thousands of Ukrainian hryvnias)

8. Due from other banks (continued)

In 2016, the methodology of estimation of allowance for impairment of balances in other banks was changed. This resulted in increase of respective allowance for impairment as at 31 December 2016 by UAH 5,466 thousand. While applying mentioned changes in methodology in 2015, the amount of allowance for impairment as at 31 December 2015 would have been increased by UAH 26,077 thousand.

Placements were made with Ukrainian and foreign banks. Analysis by credit quality of due from other banks outstanding at 31 December 2016 is as follows:

	Current accounts and overnight deposits with other banks	**Term deposits with other banks**	**Total**
Neither past due nor impaired			
AA- to AA+ rated	1,637,794	-	**1,637,794**
A- to A+ rated	1,416,155	540,627	**1,956,782**
BBB- to BBB+ rated	411,357	477,294	**888,651**
B- to B+ rated	61,668	-	**61,668**
Unrated	186,163	836,949	**1,023,112**
Total neither past due nor impaired	**3,713,137**	**1,854,870**	**5,568,007**
Individually impaired loans			
more than 360 days overdue	-	248,819	**248,819**
Total individually impaired	**-**	**248,819**	**248,819**
Less allowance for impairment	-	(254,862)	**(254,862)**
Total due from other banks	**3,713,137**	**1,848,827**	**5,561,964**

The credit ratings were based on the ratings assigned by the international rating agencies Fitch. Counterparties included in the category of "unrated" are represented by banks, considered to be mid-size or small banks by the amount of total assets.

Analysis by credit quality of due from other banks outstanding at 31 December 2015 is as follows:

	Current accounts and overnight deposits with other banks	**Term deposits with other banks**	**Total**
Neither past due nor impaired			
- AA- to AA+ rated	449,411	-	**449,411**
- A- to A+ rated	1,754,775	505,301	**2,260,076**
- BBB- to BBB+ rated	585,096	450,613	**1,035,709**
- B- to B+ rated	206	-	**206**
- CCC- to CCC+ rated	24,085	-	**24,085**
- Unrated	194,032	254,069	**448,101**
Total neither past due nor impaired	**3,007,605**	**1,209,983**	**4,217,588**
Individually impaired loans			
- more than 360 days overdue	-	219,626	**219,626**
Total individually impaired	**-**	**219,626**	**219,626**
Less allowance for impairment	-	(153,738)	**(153,738)**
Total due from other banks	**3,007,605**	**1,275,871**	**4,283,476**

Movements in the allowance for impairment of due from other banks during the year were as follows:

	2016	**2015**
	Total due from other banks	**Total due from other banks**
Allowance for impairment as at 1 January	**153,738**	**-**
Charge for impairment during the reporting period	76,459	152,873
Translation differences	24,665	865
Allowance for impairment as at 31 December	**254,862**	**153,738**

(in thousands of Ukrainian hryvnias)

8. Due from other banks (continued)

As at 31 December 2016, term deposits placed with other banks in OECD and other countries of UAH 1,628,473 thousand (31 December 2015: UAH 1,023,626 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

As at 31 December 2016, UAH 1,337,406 thousand on current accounts and overnight deposits with other banks representing 23% of the total amount due from other banks were placed with one OECD bank with AA- to AA+ rating confirmed by the international rating agencies (31 December 2015: UAH 1,090,344 thousand representing 25% of the total amounts due from other banks were placed with one OECD bank with AAA- to AAA+ rating confirmed by the international rating agencies).

9. Securities

Securities at fair value through profit or loss

	2016	**2015**
Ukrainian Government debt securities	277,873	263,387
Total securities at fair value though profit or loss	**277,873**	**263,387**

Securities available-for-sale

	2016	**2015**
Ukrainian Government debt securities	6,523,113	171,181
NBU deposit certificates	2,602,485	2,142,255
Total debt securities	**9,125,598**	**2,313,436**
including accrued interest income	***227,239***	***44,875***
Shares	7,057	7,057
Total securities available-for-sale	**9,132,655**	**2,320,493**

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

	Ukrainian Government debt securities	**NBU deposit certificates**	**Total**
Neither past due nor impaired			
B- to B+ rated	6,523,113	2,602,485	**9,125,598**
Total neither past due nor impaired	**6,523,113**	**2,602,485**	**9,125,598**
Total debt securities	**6,523,113**	**2,602,485**	**9,125,598**

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

	Ukrainian Government debt securities	**NBU deposit certificates**	**Total**
Neither past due nor impaired			
CCC- to CCC+ rated	171,181	2,142,255	**2,313,436**
Total neither past due nor impaired	**171,181**	**2,142,255**	**2,313,436**
Total debt securities	**171,181**	**2,142,255**	**2,313,436**

The credit ratings for Ukrainian Government debt securities' issuers and deposit certificates issued by the NBU are based on sovereign rating of Ukraine.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status.

As at 31 December 2016, deposit certificates issued by the NBU with nominal value of UAH 1,600,000 thousand (31 December 2015: UAH 600,000 thousand) with maturity date up to 1 working day are classified by the Bank as cash and cash equivalents (Note 6).

(in thousands of Ukrainian hryvnias)

9. Securities (continued)

As at 31 December 2016, the Ukrainian Government debt securities include state treasury bonds with maturity dates from 19 April 2017 through 23 December 2019 and the effective interest rates from 4% to 23% p.a. (31 December 2015: with maturity dates from 27 April 2016 through 14 August 2019 and the effective interest rates from 8% to 25% p.a.), and deposit certificate issued by the NBU with maturity date from 4 January 2017 through 12 January 2017 and effective interest rate from 13% to 15% p.a. (31 December 2015: with maturity dates from 5 January 2016 through 25 March 2016 and effective interest rate from 20% to 23% p.a.).

10. Loans to customers

	2016	2015 (reclassified)
Corporate loans	27,881,470	29,058,094
Less allowance for impairment	(6,557,846)	(5,985,411)
Total corporate loans less allowance for impairment	**21,323,624**	**23,072,683**
Loans to individuals		
Mortgage loans	2,827,481	3,532,746
Consumer loans	3,010,688	2,849,753
Car loans	317,533	331,946
Other loans	1,168,831	1,046,291
Less allowance for impairment	(3,892,402)	(4,545,803)
Total loans to individuals less allowance for impairment	**3,432,131**	**3,214,933**
Total loans to customers	**24,755,755**	**26,287,616**

Included in gross loans to customers as at 31 December 2016 were loans with fixed interest rates of UAH 34,432,811 thousand (31 December 2015: UAH 36,038,103 thousand) and loans with floating interest rates of UAH 773,192 thousand (31 December 2015: UAH 780,727 thousand).

Movements in allowance for loan impairment

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2016 were as follows:

	Corporate loans	Mortgage loans (reclassified)	Car loans (reclassified)	Consumer loans (reclassified)	Other loans to individuals	Total
Allowance for impairment of loan portfolio at the beginning of the period	**5,985,411**	**2,655,724**	**258,050**	**1,342,086**	**289,943**	**10,531,214**
Charge/(reversal) to the allowance for impairment during the year	928,195	210,495	8,325	56,473	70,987	**1,274,475**
Recovery of loans written off in previous years	(758)	(142)	(32)	(3,291)	(4,185)	**(8,408)**
Loans written off during the year as uncollectable	(792,838)	(641,304)	(1,872)	(565,193)	(111,149)	**(2,112,356)**
Translation differences	437,836	299,550	27,036	683	218	**765,323**
Allowance for impairment of loan portfolio at 31 December 2016	**6,557,846**	**2,524,323**	**291,507**	**830,758**	**245,814**	**10,450,248**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Movements in allowance for loan impairment (continued)

For the year ended 31 December 2016, the Bank refinanced mortgage loans to individuals in foreign currency into consumer loans in local currency. As at 31 December 2016, the carrying amount of such loans was UAH 61,152 thousand (31 December 2015: UAH 38,407 thousand). The net loss on restructuring of mortgage loans to individuals in foreign currency for the year ended 31 December 2016 was UAH 28,508 thousand (31 December 2015: UAH 29,346 thousand).

In 2016, the Bank changes accounting estimations regarding allowance for impairment of loans to customers. In particular, information regarding settlement of debt using of collateral of retail loans. Mentioned changes resulted in increase of the balance of allowance for impairment of loans to customers as at 31 December 2016 by UAH 235,492 thousand.

Analysis of allowance for impairment by type and effective allowance rate as at 31 December 2016 was as follows:

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	6,016,470	470,317	4,679	19,546	–	**6,511,012**
Allowance recognised for loans collectively determined to be impaired	321,782	2,042,208	283,254	758,899	212,094	**3,618,237**
Allowance recognised on collective basis for loans without specific evidence of impairment	219,594	11,798	3,574	52,313	33,720	**320,999**
Total recognised allowance for loan impairment	**6,557,846**	**2,524,323**	**291,507**	**830,758**	**245,814**	**10,450,248**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	10,041,277	519,027	4,679	21,063	–	**10,586,046**
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	383,517	2,160,319	293,776	780,160	222,408	**3,840,180**
Gross amount of loans without specific evidence of impairment, before deducting any impairment allowance	17,456,676	148,135	19,078	2,209,465	946,423	**20,779,777**
Gross amount of loans before deducting any impairment allowance	**27,881,470**	**2,827,481**	**317,533**	**3,010,688**	**1,168,831**	**35,206,003**
Provisioning rate for individually impaired loans	60%	91%	100%	93%	0%	**62%**
Provisioning rate for collectively impaired loans	84%	95%	96%	97%	95%	**94%**
Provisioning rate for loans without specific evidence of impairment	1%	8%	19%	2%	4%	**2%**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Movements in allowance for loan impairment (continued)

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2015 were as follows:

	Corporate loans	Mortgage loans (reclassified)	Car loans (reclassified)	Consumer loans (reclassified)	Other loans to individuals	Total
Allowance for impairment of loan portfolio at 01 January 2015	**2,090,666**	**1,612,194**	**166,718**	**1,057,862**	**161,647**	**5,089,087**
Charge/(reversal) to allowance for impairment during the year	3,543,683	615,404	35,204	363,306	127,432	**4,685,029**
Recovery of loans written off in previous years	(425)	(194)	(108)	(9,993)	(5,974)	**(16,694)**
Loans written off during the year as uncollectable	(285,145)	(216,705)	(4,756)	(82,169)	(262)	**(589,037)**
Translation differences	636,632	645,025	60,992	13,080	7,100	**1,362,829**
Allowance for impairment of loan portfolio at 31 December 2015	**5,985,411**	**2,655,724**	**258,050**	**1,342,086**	**289,943**	**10,531,214**

Analysis of allowance for impairment by type and effective allowance rate as at 31 December 2015 was as follows:

	Corporate loans	Mortgage loans (reclassified)	Car loans (reclassified)	Consumer loans (reclassified)	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	5,379,279	849,201	4,138	33,099	–	**6,265,717**
Allowance recognised for loans collectively determined to be impaired	339,201	1,796,113	253,207	1,253,941	269,279	**3,911,741**
Allowance recognised on collective basis for loans without specific evidence of impairment	266,931	10,410	705	55,046	20,664	**353,756**
Total recognised allowance for loan impairment	**5,985,411**	**2,655,724**	**258,050**	**1,342,086**	**289,943**	**10,531,214**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	10,234,915	1,110,589	4,138	37,231	–	**11,386,873**
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	440,765	2,117,542	277,290	1,285,859	278,026	**4,399,482**
Gross amount of loans without specific evidence of impairment, before deducting any impairment allowance	18,382,414	304,615	50,518	1,526,663	768,265	**21,032,475**
Gross amount of loans before deducting any impairment allowance	**29,058,094**	**3,532,746**	**331,946**	**2,849,753**	**1,046,291**	**36,818,830**
Provisioning rate for individually impaired loans	53%	76%	100%	89%	–	55%
Provisioning rate for collectively impaired loans	77%	85%	91%	98%	97%	89%
Provisioning rate for loans without specific evidence of impairment	1%	3%	1%	4%	3%	2%

10. Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions: securities;
- for commercial lending: charges over real estate property, inventory and trade receivables, deposits;
- for retail lending: property rights for movable and immovable property, deposits.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2016, loans were secured by customer deposits with the Bank of UAH 148,416 thousand (31 December 2015: UAH 333,115 thousand) (Note 15).

Credit quality of the loan portfolio

The loan portfolio quality is managed by using the Bank's internal credit ratings. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The following data is analysed by the Bank while determining corporate borrower's rating:

- existence of first class collateral;
- rating, calculated under internal rating model.

High rating (loans with first class cash coverage) has the following characteristics: expanding operating activity of a borrower, stable financial position (sufficient equity, low dependency of external sources of funding), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position, highly effective management and organisational structure. The risk of loan quality deterioration is minimal, credit history – excellent.

Standard rating is assigned to borrowers with stable volumes of operating activity, with performance effectiveness at industry average. There is some dependency on external sources of funding. The risk of default is low. The entities with standard rating have stable market position at the regional and national level. These are entities with adequate management and organisational structure. Credit history is positive, with insignificant technical delays in repayment of borrowings.

Below standard rating is assigned to the borrowers with unstable or decreasing operational activities, low business efficiency, high dependency of external sources of funding, repayment of loan with cash inflows might be problematic and therefore the risk of default is high. Credit history can be characterized by existence of significant overdue payments. Market position is not stable, the decrease or loss of market share is possible.

The description of internal credit ratings used by the Bank for retail borrowers is provided below.

High rating is assigned to the borrowers with strong financial position. Creditworthiness and solvency are significantly above loan servicing level. Risk of creditworthiness deterioration is minimal. Risk of creditworthiness deterioration is minimal.

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Credit quality of the loan portfolio (continued)

Standard rating is assigned to the borrowers with stable financial position. Creditworthiness and solvency are sufficient for the loan servicing. The risk of default is low.

Below standard rating is assigned to the borrowers with unstable or worsening financial position. Creditworthiness and solvency are marginally sufficient for the loan servicing. The risk of default is increasing due to negative impact of external factors on cash flows available for the repayment of loan.

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

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Without individual evidence of impairment						
Neither past due nor impaired						
- high rating	4,697,005	30,795	10,884	6,636	48,602	**4,793,922**
- standard rating	1,088,821	28,128	2,787	345,064	4,073	**1,468,873**
- below standard rating	11,636,633	78,853	3,113	1,760,410	687,196	**14,166,205**
Total neither past due nor impaired	**17,422,459**	**137,776**	**16,784**	**2,112,110**	**739,871**	**20,429,000**
Past due but not impaired						
- less than 30 days overdue	32,384	6,029	1,999	68,963	162,315	**271,690**
- 31 to 90 days overdue	1,832	4,328	294	28,392	38,790	**73,636**
- 91 to 180 days overdue	–	–	–	–	5,427	**5,427**
- 181 to 360 days overdue	–	–	–	–	10	**10**
- more than 360 days overdue	–	–	–	–	14	**14**
Total past due but not impaired	**34,216**	**10,357**	**2,293**	**97,355**	**206,556**	**350,777**
With individual evidence of impairment						
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	5,375,868	32,628	169	8,286	5,630	**5,422,581**
- 31 to 90 days overdue	13,234	2,298	195	3,653	5,764	**25,144**
- 91 to 180 days overdue	19,856	4,970	512	26,777	15,661	**67,776**
- 181 to 360 days overdue	566,512	30,249	877	74,433	31,532	**703,603**
- more than 360 days overdue	4,449,325	2,609,201	296,702	688,073	163,821	**8,207,122**
Loans determined to be impaired individually or collectively	**10,424,795**	**2,679,346**	**298,455**	**801,222**	**222,408**	**14,426,226**
Less allowance for impairment	**(6,557,846)**	**(2,524,324)**	**(291,506)**	**(830,759)**	**(245,813)**	**(10,450,248)**
Total loans to customers	**21,323,624**	**303,155**	**26,026**	**2,179,928**	**923,022**	**24,755,755**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Credit quality of the loan portfolio (continued)

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

	Corporate loans	Mortgage loans (reclassified)	Car loans (reclassified)	Consumer loans (reclassified)	Other loans to individuals	Total
Without individual evidence of impairment						
Neither past due nor impaired						
- high rating	4,453,072	62,876	34,799	65,348	81,201	**4,697,296**
- standard rating	3,071,370	84,589	7,740	991,902	332,269	**4,487,870**
- below standard rating	10,143,876	113,727	2,906	319,252	320,703	**10,900,464**
Total neither past due nor impaired	**17,668,318**	**261,192**	**45,445**	**1,376,502**	**734,173**	**20,085,630**
Past due but not impaired						
- less than 30 days overdue	194,522	26,511	3,811	96,634	6,221	**327,699**
- 31 to 90 days overdue	6,348	16,911	1,262	40,386	21,574	**86,481**
- 91 to 180 days overdue	513,227	–	–	13,122	6,221	**532,570**
- 181 to 360 days overdue	–	–	–	1	43	**44**
- more than 360 days overdue	–	–	–	21	30	**51**
Total past due but not impaired	**714,097**	**43,422**	**5,073**	**150,164**	**34,090**	**946,845**
With individual evidence of impairment						
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	5,619,098	32,942	137	4,870	1,925	**5,658,972**
- 31 to 90 days overdue	1,165,785	509	62	30,809	558	**1,197,723**
- 91 to 180 days overdue	44,267	24,829	1,454	38,087	16,550	**125,187**
- 181 to 360 days overdue	1,146,875	86,846	4,319	180,520	60,111	**1,478,671**
- more than 360 days overdue	2,699,654	3,083,006	275,456	1,068,801	198,885	**7,325,802**
Loans determined to be impaired individually or collectively	**10,675,679**	**3,228,132**	**281,428**	**1,323,087**	**278,028**	**15,786,355**
Less allowance for impairment	**(5,985,411)**	**(2,655,724)**	**(258,050)**	**(1,342,086)**	**(289,943)**	**(10,531,214)**
Total loans to customers	**23,072,683**	**877,022**	**73,896**	**1,507,667**	**756,348**	**26,287,616**

Concentration of loans to customers

As at 31 December 2016, the Bank's 20 largest borrowers, with aggregate loan amount of UAH 14,782,232 thousand, represented 42% of the gross loan portfolio (31 December 2015: UAH 14,270,963 thousand issued to 20 largest borrowers represented 39% of the gross loan portfolio).

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Concentration of loans to customers (continued)

The loan portfolio of the Bank by economic sectors, the credit risk of which has an impact on the credit quality, is as follows:

	2016	2015
Individuals	7,324,533	7,760,736
Trade and agency services	6,418,500	6,352,432
Property development	4,943,195	5,043,864
Food industry and agriculture	4,940,478	4,988,003
Machine building	3,103,737	2,957,391
Mining	2,535,763	4,434,604
Metallurgy	2,019,136	1,941,691
Non-banking financial institutions	1,288,264	929,933
Woodworking	788,011	842,772
Chemical	244,776	193,202
Transport, communication and infrastructure	109,128	590,036
Other	1,490,482	784,166
Total loans to customers (gross amount)	**35,206,003**	**36,818,830**

The Bank's lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

The financial effect of collateral is presented by disclosing collateral values separately for:

- those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets"); and
- those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Effect of collateral as at 31 December 2016 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	6,849,057	13,467,911	14,474,567	5,021,239
Mortgage loans	201,024	1,377,143	102,132	50,019
Car loans	25,860	293,335	167	73
Consumer loans	2,374	24,091	2,177,556	-
Other loans (overdrafts)	2,164	7,364	920,854	-
Total	**7,080,479**	**15,169,844**	**17,675,276**	**5,071,331**

The effect of collateral as at 31 December 2015 is as follows:

	Over-collateralised assets (reclassified)		Under-collateralised assets (reclassified)	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	4,464,969	7,598,428	18,607,714	5,518,256
Mortgage loans	506,228	4,997,657	370,794	109,506
Car loans	62,731	457,117	11,165	877
Consumer loans	4,880	64,501	1,502,787	37,029
Other loans (overdrafts)	1,708	75,074	754,639	1,442
Total	**5,040,516**	**13,192,777**	**21,247,099**	**5,667,110**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Concentration of loans to customers (continued)

The decrease in under-collateralised loans in 2016 as compared to 2015 is due to additional collateral and repayment of loans which in the prior period were categorised as under-collateralised.

11. Property and equipment, investment property and intangible assets

	Premises	Leasehold improve-ments	Works of arts	Computers and other equipment	Capital invest-ments in property and equipment	Total property and equipment	Intangible assets	Total
Cost or revalued amount at 1 January 2015	**1,453,925**	**56,347**	**9,108**	**564,324**	**58,816**	**2,142,520**	**311,572**	**2,454,092**
Accumulated depreciation and amortization	(317,391)	(35,305)	-	(423,878)	-	(776,574)	(139,487)	**(916,061)**
Carrying amount at 1 January 2015	**1,136,534**	**21,042**	**9,108**	**140,446**	**58,816**	**1,365,946**	**172,085**	**1,538,031**
Additions	-	1,939	-	14,962	66,586	83,487	124,536	**208,023**
Disposals/write-offs	-	(3,922)	-	(4,072)	-	(7,994)	-	**(7,994)**
Transfers to another category	4,326	11,994	-	84,202	(100,522)	-	-	**-**
Transfers to investment property	(15,595)	-	-	-	-	(15,595)	-	**(15,595)**
Revaluation	(116,832)	-	7,906	-	-	(108,926)	-	**(108,926)**
Impairment of fixed assets in ATO zone	(955)	-	-	-	-	(955)	-	**(955)**
Depreciation and amortisation charge	(24,443)	(10,807)	-	(71,690)	-	(106,940)	(53,322)	**(160,262)**
Carrying amount at 31 December 2015	**983,035**	**20,246**	**17,014**	**163,848**	**24,880**	**1,209,023**	**243,299**	**1,452,322**
Cost or revalued amount at 31 December 2015	**1,264,999**	**59,138**	**17,014**	**638,240**	**24,880**	**2,004,271**	**436,026**	**2,440,297**
Accumulated depreciation and amortization	(281,964)	(38,892)	-	(474,392)	-	(795,248)	(192,727)	**(987,975)**
Carrying amount at 31 December 2015	**983,035**	**20,246**	**17,014**	**163,848**	**24,880**	**1,209,023**	**243,299**	**1,452,322**
Additions	-	-	-	32,156	129,398	161,554	117,693	**279,247**
Disposals/write-offs	(9)	(349)	-	(2,065)	-	(2,423)	(52)	**(2,475)**
Transfers to another category	4,890	15,065	(9)	125,709	(145,655)	-	-	**-**
Transfers to investment property	(14,491)	-	-	-	-	(14,491)	-	**(14,491)**
Revaluation	(28,056)	-	-	-	-	(28,056)	-	**(28,056)**
Impairment of fixed assets in ATO zone	(6,722)	-	-	-	-	(6,722)	-	**(6,722)**
Depreciation and amortisation charge	(24,222)	(13,910)	-	(67,358)	-	(105,490)	(73,362)	**(178,852)**
Carrying amount at 31 December 2016	**914,425**	**21,052**	**17,005**	**252,290**	**8,623**	**1,213,395**	**287,578**	**1,500,973**
Cost or revalued amount at 31 December 2016	**1,209,150**	**70,192**	**17,005**	**758,056**	**8,623**	**2,063,026**	**550,636**	**2,613,662**
Accumulated depreciation and amortization	(294,725)	(49,140)	-	(505,766)	-	(849,631)	(263,058)	**(1,112,689)**
Carrying amount at 31 December 2016	**914,425**	**21,052**	**17,005**	**252,290**	**8,623**	**1,213,395**	**287,578**	**1,500,973**

(in thousands of Ukrainian hryvnias)

11. Property and equipment, investment property and intangible assets (continued)

As at 31 December 2016, the Bank's property located in the territory of the Crimea included premises with the carrying value of UAH 25,141 thousand (31 December 2015: UAH 26,020 thousand).

As at 31 December 2016, the Bank's property located in the ATO zone included premises with the carrying value of UAH 58,318 thousand (31 December 2015: UAH 100,813 thousand). As for the above property, the Bank recognized in 2016 an impairment loss in the amount of UAH 6,722 thousand (2015: UAH 955 thousand).

As at 31 December 2016, the Bank's own premises, furniture, equipment, leasehold improvements and ATMs, with net book value of UAH 1,300,760 thousand (31 December 2015: UAH 1,284,924 thousand) were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

As at 31 December 2016, the carrying amount of premises and works of art would have been UAH 368,896 thousand (31 December 2015: UAH 409,808 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying value of the premises and works of art as follows:

	2016	2015
Premises at revalued amount in the statement of financial position	914,425	983,035
Revaluation reserve presented in equity, net of tax	(548,340)	(576,047)
Premises at cost less accumulated depreciation and impairment	**366,085**	**406,988**
Works of art at revalued amount in the statement of financial position	17,005	17,014
Revaluation reserve on works of art presented in equity, net of tax	(14,194)	(14,194)
Works of art at cost less accumulated depreciation and impairment	**2,811**	**2,820**
Total premises and works of art	**368,896**	**409,808**

Changes in carrying value of investment property were as follows:

	2016	2015
Fair value of investment property at the beginning of the period	**188,554**	**96,151**
Sale	(15,594)	(63,640)
Transfer from owner-occupied premises	14,491	15,595
Transfer (to/)from repossessed property collateral	(5,016)	184,691
Fair value gains	19,145	10,349
Fair value losses	(15,723)	(54,592)
Fair value of investment property at 31 December	**185,857**	**188,554**

The rental income received from investment property in 2016 was UAH 7,936 thousand (2015: UAH 4,812 thousand) (Note 26.) The operating and maintenance expenses on investment property in 2016 were UAH 2,180 thousand (2015: UAH 3,295 thousand.)

Gains less losses on revaluation of investment property of UAH 3,422 thousand were recognised in the income statement in 2016 (2015: losses less gains of UAH 44,243 thousand).

(in thousands of Ukrainian hryvnias)

12. Other assets

	2016	2015 (reclassified)
Financial assets		
Settlements on card operations	99,052	142,422
Accrued income and settlements	53,294	129,749
Settlements on cooperation agreements	53,103	31,475
Receivables on transfers and payments	43,866	13,730
Derivative financial instruments	27,853	17,376
Purchase of foreign currency	1,793	1,809
Other financial assets	11,070	20,813
Allowance for impairment	(38,523)	(48,906)
Total financial assets	**251,508**	**308,468**
Non-financial assets		
Repossessed real estate collateral	212,290	1,480
Prepaid expenses, including for assets insurance	26,081	22,734
Prepayments for other taxes	23,235	2,430
Prepayments for property and equipment and intangible assets	8,027	27,650
Precious metals	784	8,761
Prepayments for services	137	128
Other non-financial assets	9,239	12,332
Allowance for impairment	(2,784)	(487)
Total non-financial assets	**277,009**	**75,028**
Total other assets	**528,517**	**383,496**

Movements in allowance for impairment of other financial assets during the year were as follows:

	2016	2015
Allowance for impairment at the beginning of the period	**48,906**	**35,554**
Charge for impairment	7,610	15,759
Assets written off during the year as uncollectible	(19,309)	(2,665)
Effect of changes in exchange rates	1,316	258
Allowance for impairment as at 31 December	**38,523**	**48,906**

Movements in allowance for impairment of other non-financial assets during the year were as follows:

	2016	2015
Allowance for impairment at the beginning of the period	**487**	**157**
Charge for impairment during the reporting period	2,607	330
Assets written off during the year as uncollectible	(310)	-
Allowance for impairment as at 31 December	**2,784**	**487**

13. Due to the National Bank of Ukraine

In January 2009, the Bank obtained from the NBU a liquidity support loan of UAH 500,000 thousand. In March 2009, the Bank obtained from the NBU further liquidity support loan of UAH 1,336,900 thousand. As at 31 December 2016, the Bank has repaid all amounts due to the National Bank of Ukraine.

(in thousands of Ukrainian hryvnias)

14. Due to other banks

	2016	2015
Current accounts of other banks		
- Domestic	861,606	51,157
- OECD countries	542	5
- Non-OECD countries	-	65
Total current accounts of other banks	**862,148**	**51,227**
Term deposits of other banks		
- Domestic	225,380	173,600
Total term deposits of other banks	**225,380**	**173,600**
Loans received from other banks		
- Domestic	60,361	-
Total loans received from other banks	**60,361**	**-**
Total amounts due to other banks	**1,147,889**	**224,827**

As at 31 December 2016, placements of 10 largest banks of UAH 952,594 thousand made 83% of total amounts due from other banks (31 December 2015: UAH 167,688 thousand, 75%).

15. Customer accounts

	2016	2015
Legal entities		
- Current accounts	12,966,859	9,345,616
- Term deposits	5,505,474	4,239,587
Individuals		
- Current accounts	3,454,739	2,942,664
- Term deposits	11,258,444	11,056,890
Total customer accounts	**33,185,516**	**27,584,757**

As at 31 December 2016, the Bank's 10 largest customers, with an aggregate amount of accounts of UAH 2,736,066 thousand represented 8% of customer accounts (31 December 2015: UAH 4,334,759 thousand, or 16%).

As at 31 December 2016, included in customer accounts were deposits of UAH 148,416 thousand (31 December 2015: UAH 333,115 thousand) held as part of collateral for loans to customers (Note 10) and credit related commitments with carrying amount of UAH 70,199 thousand (31 December 2015: UAH 65,420 thousand). In addition, UAH 1,582,123 thousand (31 December 2015: UAH 974,084 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 31).

Economic sector concentrations within customer accounts were as follows:

	2016	2015
Individuals	14,713,183	13,999,554
Trade and agency services	3,251,384	2,648,232
Machine building	2,784,093	1,424,384
Mining and energy	2,766,934	1,286,510
Metallurgy	2,475,878	1,494,305
Transport and infrastructure	2,369,707	2,241,026
Property development	856,441	715,240
Non-banking financial institutions	762,283	605,703
Food industry and agriculture	332,127	230,909
Chemical	241,124	159,581
Woodworking	77,351	100,350
Other	2,555,011	2,678,963
Total customer accounts	**33,185,516**	**27,584,757**

(in thousands of Ukrainian hryvnias)

16. Deposit certificates issued

In February 2016, the Bank had started to issue the deposit certificates with the interest rate from 1.75% to 5% p.a. As at 31 December 2016, the Bank had the following deposit certificates:

	31 December 2016	31 December 2015
Deposit certificates denominated in USD	583,573	-
Deposit certificates denominated in EUR	107,798	-
Total deposit certificates issued	**691,371**	**-**

17. Eurobonds issued

According to the repayment schedule, in December 2015 the Bank repaid part of the loan of USD 10,000 thousand being UAH 238,075 thousand in the equivalent as at the repayment date. In September and December 2016 the Bank repaid part of the loan of USD 39,512 thousand being UAH 1,041,588 thousand in the equivalent as at the repayment date. As at 31 December 2016, the carrying value of the loan is USD 157,793 thousand being UAH 4,290,540 thousand in the equivalent (31 December 2015: USD 196,764 thousand being UAH 4,722,461 thousand in the equivalent).

18. Other borrowed funds

	2016	2015
Landesbank Berlin AG	18,995	26,289
Total other borrowed funds	**18,995**	**26,289**

The loan from Landesbank Berlin AG is denominated in Euros and bears interest at a weighted average rate of EURIBOR + 0.25% p.a. on the outstanding amount with maturity on 6 September 2018. The interest is accrued on the outstanding amount of the loan. The loan was received for the purpose of financing the acquisition of imported equipment by Bank's customers. In 2016, the loan was partially repaid for the amount of EUR 332 thousand being UAH 9,795 thousand in the equivalent as at the repayment date.

(in thousands of Ukrainian hryvnias)

19. Other liabilities

	2016	2015
Financial liabilities		
Amounts in settlements	271,174	115,393
Payable under operations with plastic cards	61,868	23,000
Derivative financial liabilities (Note 21)	53,070	13,878
Deferred income on credit lines	35,551	28,653
Provision for commitments, guarantees and letters of credit (Note 31)	11,516	14,969
Other financial liabilities	13,997	27,486
Total financial liabilities	**447,176**	**223,379**
Non-financial liabilities		
Amounts payable to employees	147,768	106,217
Amounts payable for services	31,626	29,937
Contributions to Individuals Deposits Guarantee Fund	26,922	30,891
Other taxes payable	19,464	28,622
Provision for other losses	2,083	-
Cost of software payable under licensing agreements	-	2,207
Other financial liabilities	4,213	20,255
Total non-financial liabilities	**232,076**	**218,129**
Total other liabilities	**679,252**	**441,508**

20. Subordinated debt

As at 31 December 2016, the Bank had three deposits attracted under subordinated debt terms.

The first subordinated loan in UAH was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 127,300 thousand carrying an interest rate of 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2016, the carrying value of the attraction was UAH 128,652 thousand (31 December 2015: UAH 128,864 thousand).

The second subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 135,000 thousand bearing 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2016, the carrying value of the attraction was UAH 136,432 thousand (31 December 2015: UAH 136,657 thousand).

The third subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 220,000 thousand carrying an interest rate of 9.5% p.a. and maturing in October 2015. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2016, the carrying value of the attraction was UAH 225,666 thousand (31 December 2015: UAH 226,653 thousand).

(in thousands of Ukrainian hryvnias)

21. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities.

As at 31 December 2016, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / attraction of EUR	141,505	(139,263)	2,242	-
Placement of UAH / attraction of USD	1,650,453	(1,627,081)	24,778	(1,406)
Attraction of UAH / placement of EUR	19,313	(19,622)	-	(309)
Attraction of UAH / placement of USD	1,256,832	(1,277,712)	-	(20,880)
Total forward currency contracts	**3,068,103**	**(3,063,678)**	**27,020**	**(22,595)**
Forward contracts on securities				
To sell securities	759,686	(789,912)		(30,226)
To buy securities	408,032	(407,448)	833	(249)
Total forward contracts on securities	**1,167,718**	**(1,197,360)**	**833**	**(30,475)**

As at 31 December 2015, the Bank has the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / attraction of USD	712,150	(696,122)	17,376	(1,348)
Total forward currency contracts	**712,150**	**(696,122)**	**17,376**	**(1,348)**
Forward contracts on securities				
To sell securities	217,123	(228,372)	-	(11,250)
To buy securities	260,928	(262,209)	-	(1,280)
Total forward contracts on securities	**478,051**	**(490,581)**	**-**	**(12,530)**

22. Share capital and other reserves

As at 31 December 2016, the Bank's approved and authorised share capital comprised 14,323,880 ordinary shares with a nominal value of UAH 230 per share. All shares have equal voting rights. As at 31 December 2016, all shares were fully paid and registered.

Nature and purpose of reserves

Revaluation reserve for property and equipment

Revaluation reserve for property and equipment is used to reflect the fair value of premises and works of art, and its decrease, but to the extent this reduction relates to increasing the value of the same asset previously recognized in equity.

Unrealized gains from securities available-for-sale

This reserve reflects the fair value of securities available-for-sale.

Bank's reserve fund

The Bank's reserve fund is created under the Charter and the laws of Ukraine up to reaching 25 percent of regulatory capital at the beginning of each year. The amount of deductions to the reserve fund is not less than 5 percent of the annual income of the Bank. The reserve fund is created to cover general banking risks, including future losses and other unforeseen losses in all asset items and off-balance sheet liabilities.

(in thousands of Ukrainian hryvnias)

23. Segment analysis

The information on main banking segments of the Bank as at 31 December 2016 is set out below:

2016	Corporate banking	Retail banking	Distressed assets manage-ment	Investment banking	Unallocated	Total
Segment assets	**22,238,742**	**3,737,957**	**717,573**	**15,065,121**	**2,793,215**	**44,552,608**
Including						
Loans to customers, net	21,046,624	3,300,891	408,240	–	–	**24,755,755**
- loans to customers, gross	25,461,144	5,017,888	4,726,971	–	–	**35,206,003**
- allowance	(4,414,520)	(1,716,997)	(4,318,731)	–	–	**(10,450,248)**
Other financial statements items	1,192,118	437,066	309,333	15,065,121	2,793,215	**19,796,853**
Segment liabilities	**19,039,193**	**15,127,622**	**–**	**5,266,971**	**1,070,527**	**40,504,313**
Including						
Customer accounts	18,472,342	14,713,174	–	–	–	**33,185,516**
Other financial statements items	566,851	414,448	–	5,266,971	1,070,527	**7,318,797**

The information on profit and loss of the reportable operating segments of the Bank for 2016 is set out below:

2016	Corporate banking	Retail banking	Distressed assets manage-ment	Investment banking	Unallocated	Total
Interest income	3,042,755	1,045,278	141,657	737,007	79,060	**5,045,757**
Interest expense	(990,370)	(1,297,973)	–	(570,117)	(55,021)	**(2,913,481)**
Transfers	(1,276,376)	1,273,824	(218,224)	(307,960)	528,736	**–**
Net interest income	**776,009**	**1,021,129**	**(76,567)**	**(141,070)**	**552,775**	**2,132,276**
Net fee and commission income	154,483	372,614	173,067	91,861	188,908	**980,933**
Trading income	90,172	24,596	–	314,934	–	**429,702**
(Operating expenses) and other income/(expenses)	(318,615)	(844,179)	(292,514)	(25,894)	(271,609)	**(1,752,811)**
Allowances	(943,859)	(159,075)	(140,409)	(6,095)	(93,088)	**(1,342,526)**
Segment result	**(241,810)**	**415,085**	**(336,423)**	**233,736**	**376,986**	**447,574**
Income taxes	43,526	(74,715)	60,556	(42,072)	(67,858)	**(80,563)**
Net income/(loss) for the year	**(198,284)**	**340,370**	**(275,867)**	**191,664**	**309,128**	**367,011**

(in thousands of Ukrainian hryvnias)

23. Segment analysis (continued)

The information on main banking segments of the Bank as at 31 December 2015 is set out below:

2015	Corporate banking	Retail banking	Distressed assets manage-ment	Investment banking	Unallocated	Total
Segment assets	**22,397,368**	**2,823,805**	**1,376,974**	**6,901,309**	**4,144,635**	**37,644,091**
Including						
Loans to customers, net	22,382,518	2,731,403	1,173,695	–	–	**26,287,616**
loans to customers, gross	26,141,802	5,091,587	5,585,441	–	–	**36,818,830**
allowance	(3,759,284)	(2,360,184)	(4,411,746)	–	–	**(10,531,214)**
Other financial statements items	14,850	92,402	203,279	6,901,309	4,144,635	**11,356,475**
Segment liabilities	**13,619,201**	**14,114,963**	**–**	**1,841**	**6,241,437**	**33,977,442**
Including						
Customer accounts	13,584,223	14,000,534	–	–	–	**27,584,757**
Other financial statements items	34,978	114,429	–	1,841	6,241,437	**6,392,685**

The information for profit and loss of the reportable operating segments of the Bank for 2015 is set out below:

2015	Corporate banking	Retail banking	Distressed assets manage-ment	Investment banking	Unallocated	Total
Interest income	3,596,443	1,137,678	191,600	321,746	265	**5,247,732**
Interest expense	(1,068,425)	(1,447,606)	–	(530,478)	(54,724)	**(3,101,233)**
Transfers	(1,892,660)	1,309,641	(291,512)	9,745	864,786	**–**
Net interest income	**635,358**	**999,713**	**(99,912)**	**(198,987)**	**810,327**	**2,146,499**
Net fee and commission income	332,592	362,896	–	79,250	134,551	**909,289**
Trading income	136,977	34,039	–	680,642	355,683	**1,207,341**
(Operating expenses) and other income/(expenses)	(262,219)	(706,617)	(237,408)	(14,916)	(346,865)	**(1,568,025)**
Allowances	(2,706,136)	(633,267)	(1,357,413)	(153,738)	–	**(4,850,554)**
Segment result	**(1,863,428)**	**56,764**	**(1,694,733)**	**392,251**	**953,696**	**(2,155,450)**
Income taxes	348,384	(10,612)	316,845	(73,335)	(178,302)	**402,980**
Net income/(loss) for the year	**(1,515,044)**	**46,152**	**(1,377,888)**	**318,916**	**775,394**	**(1,752,470)**

The respective operating segments were formed according to the Bank's approved business development and management.

The information concerns services rendered within segments and is presented to the management of the Bank responsible for decision making for the purpose of resources allocation and segment performance assessment.

For the purpose of internal management reporting, the transactions of the Bank are split into the following segments:

Corporate business: this business segment includes serving current accounts of legal entities, attraction of deposits, granting credit lines in "overdraft" form, serving card accounts, granting loans and other types of finance as well as foreign exchange and trade finance transactions.

The corporate business segment consists of the following sub-segments: LCC (large corporate clients with annual turnover from UAH 400,000 thousand or official insiders of the Bank), MCC (medium-size corporate clients with annual turnover from UAH 80,000 thousand to UAH 400,000 thousand or the limit of asset transactions per client from UAH 16,000 thousand), SCC (small and micro corporate clients with annual turnover up to UAH 80,000 thousand or the limit of asset transactions per client up to UAH 16,000 thousand), SC (state-owned companies with a share of state or communal ownership not less than 10% of the charter capital).

23. Segment analysis (continued)

Retail banking: provision of banking services to individuals. This segment includes the same types of banking services as the segment of corporate banking servicing as well as the services of opening and maintenance of accounts of private entrepreneurs and individuals, including the accounts for personal usage, current and saving accounts, attraction of deposits, servicing of credit and debit cards under salary projects, mortgage and car lending and targeted lending in commercial networks.

Distressed asset management: this business segment includes the workout of corporate, retail loans and securities having the following evidence of impairment:

- individual assessments of impairment;
- payment delay (from 180 days of principal amount delay for retail and 30 days for corporate clients);
- other evidence of impairment according to the internal assessments by the management.

This business segment renders services of restructuring and past-due debt collection.

Investment business: investment banking activity. This segment covers financial instruments trade, transactions on the inter-bank market, transactions on capital markets, transactions with securities, foreign exchange and banknotes for the purpose of income gaining;

Unallocated items: this segment covers asset and liability management center (is a main regulator of transfer pricing in the Bank and includes the transactions aimed at liquidity support of the Bank's activity); Head Office (this segment includes fixed assets, corporate rights, deferred tax assets, advances and receivables related to administrative and economic activity of the Bank); and the Processing Center (this segment includes informational and technical support to payment card settlements).

After the merge of operations of PJSC FUIB and PJSC BRC, the Bank has changed approaches to assessment and operating management of the processes of business segment Retail business. Management no longer considers the result of services provision to VIP and wealthy clients and mass segment, instead operations are assessed and managed by business segment as a whole.

In 2016, management of the Bank approved the changes to approaches of determination of the results and assessment of operations of Distressed asset management business segment. As the result of these changes, the share of distressed assets started to be accounted within other business segments – Corporate banking and Retail banking. As at 31 December 2016, the balance of these loans was UAH 1,652,642 thousand (2015: UAH 1,804,047 thousand).

Business segments Information for 12-month period ended 31 December 2015 accounted mentioned above changes in approaches.

Capital expenditure is not included into the segment information reviewed by the Management Board. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Revenues for each individual country are not reported to the chief operational decision maker as they are mainly represented by revenues from Ukraine, including revenues from off-shore companies of Ukrainian customers, based on the domicile of the customer. Revenues from other countries do not exceed 10% of total revenues of the Bank. Revenues include interest and commission income.

The Bank has no customer for which the revenue represents 10% or more of the total revenues.

(in thousands of Ukrainian hryvnias)

24. Interest income and expense

	2016	2015
Interest income		
Loans to customers		
- legal entities	3,251,971	3,741,535
- individuals	1,099,209	1,186,215
Securities		
- at fair value through profit or loss	58,540	11,452
- available-for-sale	550,435	284,587
Due from other banks	85,602	23,943
Total interest income	**5,045,757**	**5,247,732**
Interest expense		
Individuals		
- term deposits	(1,285,214)	(1,394,062)
- current accounts	(3,378)	(4,252)
Legal entities		
- term deposits	(417,654)	(517,703)
- current accounts	(530,157)	(451,554)
Eurobonds issued	(556,757)	(511,854)
Subordinated debt	(52,985)	(53,692)
Due to the National Bank of Ukraine	(39,065)	(148,926)
Due to other banks	(17,415)	(17,634)
Deposit certificates issued	(10,459)	-
Other borrowed funds	(397)	(1,556)
Total interest expense	**(2,913,481)**	**(3,101,233)**
Net interest income	**2,132,276**	**2,146,499**

Information on interest income and expenses from transactions with related parties is set out in Note 32.

(in thousands of Ukrainian hryvnias)

25. Fee and commission income and expense

	2016	2015
Payment cards	420,380	379,749
Settlement transactions with customers	353,679	268,573
Servicing loans, including under cooperation agreements	222,477	291,038
Conversion operations	188,690	171,468
Cash deposits and withdrawals	68,203	44,978
Documentary operations	61,979	54,911
Fiduciary activities	3,197	2,524
Other	10,725	9,713
Fee and commission income	**1,329,330**	**1,222,954**
Payment cards	(246,088)	(238,422)
Servicing loans	(66,500)	(39,531)
Settlement transactions	(20,881)	(17,353)
Purchase and collection of cash	(8,019)	(11,208)
Documentary operations	(5,089)	(4,529)
Fiduciary activities	(585)	(297)
Other	(1,235)	(2,325)
Fee and commission expense	**(348,397)**	**(313,665)**
Net fee and commission income	**980,933**	**909,289**

Information on fee and commission income and expenses from transactions with related parties is set out in Note 32.

26. Other income

	2016	2015
Penalties received	43,477	46,893
Income from disposal of property and equipment	27,297	11,870
Other rental income	15,269	20,501
Rental income from investment properties (Note 11)	7,936	4,812
Revaluation of property and equipment	4,365	12,411
Dividends received	4,307	3,290
Income from compensation of insured losses	517	6,409
Return of interest paid in past years due to early cancellation of deposit agreement	105	7,042
Other income	6,363	8,640
Total other income	**109,636**	**121,868**

27. Operating expenses

	2016	2015
Salary, employee benefits and compulsory contributions to State funds	869,813	730,255
Depreciation and amortisation (Note 11)	178,852	160,262
Non-performing loans settlement expenses	173,317	102,912
Contributions to Individuals Deposits Guarantee Fund	117,771	136,186
Lease of premises	113,006	91,955
Maintenance of premises and equipment	83,658	86,015
Communication	50,840	47,070
Advertising, entertainment expenses	50,130	40,564
Decrease in value of the Bank’s property	49,570	50,708
Audit, legal, consulting services	34,576	36,346
Security services	14,343	11,328
State duties and taxes, other than income tax	10,602	25,192
Provision for impairment of other assets (Note 12)	10,217	16,089
Staff training	7,897	5,543
Provision for impairment of assets located in ATO zone (Note 11)	6,722	955
Other	68,560	104,248
Total operating expenses	**1,839,874**	**1,645,628**

(in thousands of Ukrainian hryvnias)

27. Operating expenses (continued)

Included in salary, employee benefits and compulsory contributions to State funds was the unified social tax in the amount of UAH 115,244 thousand (2015: UAH 146,399 thousand).

28. Income taxes

Income tax expense was comprised of the following:

	2016	2015
Deferred tax (benefit)/expense	80,563	(402,980)
Income taxes expense/(benefit)	**80,563**	**(402,980)**

The Bank's income for 2016 is taxable at the rate of 18% (2015: 18%). The reconciliation between the expected and the actual income tax expense is provided below:

	2016	2015
Income/(loss) before tax	**447,574**	**(2,155,450)**
Theoretical tax benefit at the applicable statutory rate	80,563	(387,981)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-taxable income	(1,297)	
Non-deductible expenses	3,572	5,223
Expenses recognized only in tax accounting	(2,275)	(34,582)
Change of tax accounting rules		14,539
Other non-temporary differences	-	(179)
Income tax expense for the year	**80,563**	**(402,980)**

The differences between the national and IFRS taxation result in specific temporary differences arising between the carrying values of some assets and liabilities for the purposes of financial reporting and their tax bases. The tax effect of changes in such temporary differences shall be accounted for at the income tax rates expected to be applied in the period of realization of such differences.

Deferred tax assets and liabilities as at 31 December 2016 and 2015 and their movements for the respective years are as follows:

	31 December 2015	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2016
Tax effect of deductible and taxable temporary differences				
Allowances for loan impairment and credit related commitments	(113,929)	–	72,954	(40,975)
Securities available-for-sale	473	(7,092)	–	(6,619)
Property and equipment and investment property	9,633	(1,618)	(1,037)	6,978
Other	4,294	–	–	4,294
Estimated net deferred tax liability	**(99,529)**	**(8,710)**	**71,917**	**(36,322)**
Tax losses carry forward	376,521	–	(152,480)	224,041
Net deferred tax asset	**276,992**	**(8,710)**	**(80,563)**	**187,719**

(in thousands of Ukrainian hryvnias)

28. Income taxes (continued)

	31 December 2014	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2015
Tax effect of deductible and taxable temporary differences				
Allowances for loan impairment and credit related commitments	(174,516)	-	60,587	(113,929)
Securities available-for-sale	13,806	1,625	(14,958)	473
Property and equipment and investment property	(26,616)	(21,868)	58,117	9,633
Other	23,655	-	(19,361)	4,294
Estimated net deferred tax liability	**(163,671)**	**(20,243)**	**84,385**	**(99,529)**
Tax losses carry forward	57,926	-	318,595	376,521
Net deferred tax asset	**(105,745)**	**(20,243)**	**402,980**	**276,992**

29. Risk management

Introduction

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk Management Process

The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairman of the Management Board on Risks and reporting to Supervisory Board of the Bank, the Management Board of the Bank, the Credit Council of the Bank and the Assets and Liabilities Management Committee of the Bank as well as the Committee on Operational Risk Management of the Bank.

Supervisory Board of the Bank

The Supervisory Board of the Bank has the highest degree of authority with respect to the risk management of the Bank, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of UAH 1,500 million.

Management Board

The Management Board of the Bank is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board of the Bank delegates its powers with respect to the overall asset and liability management to the Assets and Liabilities Management Committee of the Bank, authorities on operational risk management – to the Committee on Operational Risk Management of the Bank and approves the composition of these Committees. In addition, the Management Board of the Bank is responsible for development and preliminary approval of the Bank's credit policy. Final approval of credit policy is within the competence of the Supervisory Board. The Management Board accepts Credit Council decisions on projects of lending to the Bank's related individuals with limit credit risk more than 3% of regulatory capital, calculated on the next date before the decision.

(in thousands of Ukrainian hryvnias)

29. Risk management (continued)

Introduction (continued)

Credit Council of the Bank

The Credit Council of the Bank approves loans issued with the maximum credit exposure of UAH 1,500 million and sets limits on interbank deals. A representative of the shareholders is a member of the Credit Council of the Bank. The decisions taken by the Credit Council of the Bank in terms of projects which maximum credit exposures exceeding UAH 200 million shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board of the Bank. The decisions made by the Credit Council in terms of projects which maximum credit exposures below UAH 200 million shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board or of an external expert (a representative of the shareholder). The Council meets twice a week.

Credit Committee of the Bank

The Credit Committee is responsible for the decisions on restructuring and issue of loans with a maximum credit exposure of UAH 50 million. Also, the Credit Committee of the Bank approves issuance of loans which bear no credit risk covered by cash collateral. Meeting of Committee are held several times in a week.

Assets and Liabilities Management Committee of the Bank

The Assets and Liabilities Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring of the interest rate, currency and liquidity risks of the Bank.

Operational Risk Management Committee of the Bank

Operational Risk Management Committee of the Bank is responsible for operational risk management with the aim to decrease operational losses, banking processes, systems and technologies improvement, approval and implementation of measures aimed at assurance of going concern of the Bank.

For the purpose of operative management and reactions identified operational risks and managing factors of operational risks, the Bank has established five subcommittees based on the Operational Risk Management Committee.

Subcommittee "Personnel"

Subcommittee "Personnel" analyses matters on intentional and unintentional actions of personnel, errors made by personnel, qualification and personnel sufficiency assessment etc.

Subcommittee "Processes"

Subcommittee "Processes" analyses matters of processes organization, quality of communications, existing processes effectiveness and of the required optimization.

Subcommittee "External factors"

Subcommittee "External factors" analyses incidents of intentional actions of third parties, liquidation of repercussions of force majeure and intentional damage of the Bank's reputation.

Subcommittee "Systems"

Subcommittee "Systems" analyses IT systems quality issues, common understanding of IT risks and development of balanced decisions as to IT risks with consideration the specifics and interests of the business units of the Bank.

Subcommittee "Informational security"

Subcommittee "Informational security" considers matters of development of IT security management system, development of IT risks management culture, IT incidents management.

Risk Management Division of the Bank

The Risk Management Division is responsible for the development of credit risk management methodologies, procedures and reporting allowing the Bank to perform quantitative assessment of credit, interest, currency, operational and liquidity risks. This business unit is responsible for implementation of procedures related to risk management. The Risk Management Division of the Bank performs current control of the above risks on a permanent basis and controls the execution of the decisions made by the Credit bodies of the Bank, the Assets and Liabilities Management Committee of the Bank, the Operational Risk Management Committee.

29. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

Risk monitoring and control are primarily performed based on the limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The information compiled from all the businesses is examined and processed in order to analyse, control and early identify the risks. This information is presented and explained to the Management Board of the Bank, Assets and Liabilities Management Committee of the bank, Operational Risk Management Committee of the Bank, Credit Council of the Bank and the head of each respective business division. The report includes the information on the aggregate credit exposure, credit metric forecasts, limit exceptions, liquidity and interest rate risks and risk profile changes, information on operational risk. On a monthly basis, the detailed reporting on liquidity, currency, interest and operational rate risks, industry, customer and geographic risks is prepared. The management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

Risk mitigation

As a part of its overall financial risk management process, for the purpose of interest, currency, credit and liquidity risks management the Bank uses a system of limits and restrictions that ensures that actual risk measures are at the levels that do not exceed the Bank's tolerance to those risks.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

To mitigate market risks the Bank may use derivatives to a limited extent.

Credit risk

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review. Limits on the level of credit risk per borrower are approved regularly by the Credit Council of the Bank and the Credit Committee of the Bank.

The exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

(in thousands of Ukrainian hryvnias)

29. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Bank makes guarantees and letters of credit available to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives before the effect of mitigation through the use of master netting or collateral agreements, is shown in their carrying values as accurately as possible.

If recorded at fair value, their carrying values represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality of financial assets

The credit quality of financial assets is managed by using both external and the Bank's internal credit ratings. The credit quality by class of asset for loan-related statement of financial position lines, based on the external ratings and the Bank's credit rating system is presented in Note 8, Note 9 and Note 10.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days (for legal entities and individually significant loans to individuals) and 90 days (for individuals who are not included in the segment of individually significant), or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses the impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. The items considered when determining the allowance amounts include the feasibility of the counterparty's business plan, its ability to improve the performance once a financial difficulty has arisen, projected receipts and the expected dividend payment in case of bankruptcy, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless any unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is no yet objective evidence of impairment. The allowances are evaluated at each reporting date, with each segment of loan portfolio receiving a separate review. The collective assessment takes account of the impairment that is likely to be present in the portfolio even though there is no yet any objective evidence of impairment in an individual assessment. The impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time the loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by the credit management to ensure its alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed based on the methods applied for loans; when the loss is considered probable, provisions are recorded against other credit related commitments.

(in thousands of Ukrainian hryvnias)

29. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

The Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining the liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called "liquidity cushion". The liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a 1-year term. In addition, the stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of the Ukrainian banks' results under the conditions of the financial crisis.

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

Ratio	**2016, %**	**2015, %**
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	36.17	52.69
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	68.41	72.38
N6 "Short-term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 60%)	101.55	113.93

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2016 based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

At 31 December 2016	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
Due to other banks	1,132,568	5,346	10,629	–	–	**1,148,543**
Customer accounts	22,723,260	3,923,024	4,087,320	2,333,658	528,598	**33,595,860**
Deposit certificates issued	5,551	225,437	464,479	–	–	**695,467**
Eurobonds issued	–	655,363	640,590	1,236,863	2,296,456	**4,829,272**
Other borrowed funds	132	52	80	162	19,109	**19,535**
Gross settled derivative financial instruments:						
- amounts payable	2,507,092	–	–	–	–	**2,507,092**
- amounts receivable	(2,454,022)	–	–	–	–	**(2,454,022)**
Other financial liabilities	394,106	–	–	–	–	**394,106**
Subordinated debt	9,223	8,784	13,549	27,395	681,807	**740,758**
Total undiscounted financial liabilities	**24,317,910**	**4,818,006**	**5,216,647**	**3,598,078**	**3,525,970**	**41,476,611**

(in thousands of Ukrainian hryvnias)

29. Risk management (continued)

Liquidity risk and funding management (continued)

At 31 December 2016	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the National Bank of Ukraine	8,864	17,156	26,020	52,612	844,848	**949,500**
Due to other banks	224,827	-	-	-	-	**224,827**
Customer accounts	18,176,060	5,059,674	2,871,052	1,923,015	82,085	**28,111,886**
Eurobonds issued	44,298	85,738	130,036	262,930	5,784,718	**6,307,720**
Other borrowed funds	184	73	111	224	26,890	**27,482**
Gross settled derivative financial instruments:						
- amounts payable	620,715	-	-	-	-	**620,715**
- amounts receivable	(634,593)	-	-	-	-	**(634,593)**
Other financial liabilities	237,257	-	-	-	-	**237,257**
Subordinated debt	9,231	8,933	13,549	27,395	736,150	**795,258**
Total undiscounted financial liabilities	**18,686,843**	**5,171,574**	**3,040,768**	**2,266,176**	**7,474,691**	**36,640,052**

The table below shows the contractual expiry of the Bank's financial commitments and contingencies.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
2016	329,594	1,374,667	460,430	463,371	161,105	**2,789,167**
2015	213,921	1,238,712	620,805	632,483	131,555	**2,837,476**

Financial commitments and contingences include guarantees, letters of credit and credit limits on overdrafts, with the expected draw-down at any time starting from the reporting date till the date of contractual expiry. The Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

(in thousands of Ukrainian hryvnias)

29. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2016:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	1,162,368	–	–	–	–	**1,162,368**
Balance with the National Bank of Ukraine	1,213,522	–	–	–	–	**1,213,522**
Due from other banks	4,048,580	964,500	523,524	25,232	128	**5,561,964**
Securities at fair value through profit or loss	13,837	–	1,197	–	262,839	**277,873**
Securities available-for-sale	2,699,446	100,720	141,825	552,165	5,638,499	**9,132,655**
Loans to customers	1,795,203	3,573,292	9,379,941	5,421,270	4,586,049	**24,755,755**
Other financial assets	251,508	–	–	–	–	**251,508**
Total financial assets	**11,184,464**	**4,638,512**	**10,046,487**	**5,998,667**	**10,487,515**	**42,355,645**
Liabilities						
Due to other banks	1,132,569	5,266	10,054	–	–	**1,147,889**
Customer accounts	22,662,450	3,827,015	3,970,431	2,228,408	497,212	**33,185,516**
Deposit certificates issued	5,539	224,399	461,433	–	–	**691,371**
Eurobonds issued	–	537,183	537,183	1,074,365	2,141,809	**4,290,540**
Other borrowed funds	105	–	–	–	18,890	**18,995**
Other financial liabilities	447,176	–	–	–	–	**447,176**
Subordinated debt	4,607	–	–	–	486,143	**490,750**
Total financial liabilities	**24,252,446**	**4,593,863**	**4,979,101**	**3,302,773**	**3,144,054**	**40,272,237**
Liquidity gap arising from financial instruments	**(13,067,982)**	**44,649**	**5,067,386**	**2,695,894**	**7,343,461**	**2,083,408**

(in thousands of Ukrainian hryvnias)

29. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2015:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	1,244,442	-	-	-	-	**1,244,442**
Balance with the National Bank of Ukraine	897,908	-	-	-	-	**897,908**
Due from other banks	3,270,504	507,520	433,710	69,771	1,971	**4,283,476**
Securities at fair value through profit or loss	192,434	-	70,953	-	-	**263,387**
Securities available-for-sale	1,125,010	1,144,867	50,616	-	-	**2,320,493**
Loans to customers	6,538,321	8,004,896	4,710,679	4,303,911	2,729,809	**26,287,616**
Other financial assets	308,468	–	–	–	–	**308,468**
Total financial assets	**13,577,087**	**9,657,283**	**5,265,958**	**4,373,682**	**2,731,780**	**35,605,790**
Liabilities						
Due to the National Bank of Ukraine	-	-	-	-	485,426	**485,426**
Due to other banks	224,827	-	-	-	-	**224,827**
Customer accounts	17,937,640	4,945,526	2,779,723	1,845,541	76,327	**27,584,757**
Eurobonds issued	-	-	-	-	4,722,461	**4,722,461**
Subordinated debt	-	-	-	-	492,174	**492,174**
Other borrowed funds	-	-	-	-	26,289	**26,289**
Other financial liabilities	223,379	-	-	-	-	**223,379**
Total financial liabilities	**18,385,846**	**4,945,526**	**2,779,723**	**1,845,541**	**5,802,677**	**33,759,313**
Liquidity gap arising from financial instruments	**(4,808,759)**	**4,711,757**	**2,486,235**	**2,528,141**	**(3,070,897)**	**1,846,477**

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation.

The management of the Bank believes that in spite of a substantial portion of the customers' demand accounts, the 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 funding for the Bank.

Included in "Customer accounts" are term deposits of individuals. Pursuant to the Ukrainian legislation, the Bank is obliged to repay such deposits upon the depositor's demand (Note 15). Management of the bank believes that majority of term deposits of individuals will not be withdrawn till the date of maturity, thus customer accounts are disclosed by contractual maturity.

29. Risk management (continued)

Market risk

Market risk – non-trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and other prices. The Bank manages its exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using the sensitivity analysis.

Interest rate risk

Interest rate risk is a potential menace of losses incurrence, decrease in income or decrease in cost of capital of the Bank as a result of unfavourable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the unbalanced structure of statement of financial position by assets and liabilities by residual term to re-pricing date that are sensitive to changes in interest rates.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating interest rate of non-trading financial assets and financial liabilities held at 31 December, taking into account the re-pricing periods according to the contractual terms on the respective assets and liabilities.

To assess its interest risk the Bank uses gap analysis of interest-bearing assets and liabilities, performs analysis of sensitivity of interest-bearing assets and liabilities to changes in interest rates.

Interest risk control is performed in accordance with the report of spread and margin changes.

The Bank assesses interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 200 bpp in major currencies (UAH, USD, EUR). As at 31 December 2016 the Bank is exposed to interest rate risk, whose realization may impact net interest income within 1-year horizon – a possible decrease by UAH 253,110 thousand (31 December 2015: decrease by UAH 100,757 thousand).

The Bank assesses the above level of the interest rate risk as acceptable and controllable, which is not to affect significantly the Bank's yield and stable financial position. Interest rates are set by the Tariff Commercial Committee of the Bank taking into consideration transfer interest rates and cost of risks set by the Bank's Assets and Liabilities Management Committee. In accordance with the internal policies of the Bank, the delegation of authority regarding the change of interest rates is established. The control over transaction effectiveness with interest-bearing instruments is performed by the Tariff Commercial Committee of the Bank on a monthly basis.

Currency risk

Currency risk is the risk connected with the impact of foreign exchange rates fluctuation on the value of financial instruments.

The Bank performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II market risk framework, December 2010. VaR allows to assess maximum possible extent of losses with set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess the currency risk in normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding historical data on market currency rates; the calculation period during which the Bank would be probably able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

When determining the currency risk, the estimated VaR is multiplied by the sum of number "3" and mark-up in the amount "1" in accordance with Basel recommendations.

(in thousands of Ukrainian hryvnias)

29. Risk management (continued)

Currency risk (continued)

Disregarding the fact that VaR allows to accept a currency risk assessment, it is necessary to consider the following weaknesses of the method:

- the use of past currency and banking metals exchange rates does not allow to fully estimate possible currency and banking metals rates fluctuations in the future;
- the use of 10-days calculation period stipulates that all open positions in foreign currencies and banking metals may be closed within 10 trading days. This estimation may inaccurately reflect the currency risk value in the periods of diminishing market liquidity whereby the period of positions closure by the Bank may increase;
- the use of 99% one-sided confidence level does not allow to estimate the volume of losses expected with 1% probability;
- VaR calculation is performed based on open positions of the Bank in foreign currencies and banking metals as at the end of the day and may not reflect the risk accepted by the Bank during the day.

The results of currency risk calculation using VaR method as at 31 December are as follows:

Index	**2016**	**2015**
Currency risk without diversification consideration:		
- USD	1,973	61,965
- EUR	27,516	25,826
- RUB	45,475	10,666
- other currencies	6,932	17,185
Total currency risk without diversification	81,896	115,642
Diversification effect	(16,104)	(61,212)
Currency risk with diversification consideration	65,792	54,430

The above data is calculated based on internal management accounts of the Bank based on the operational financial statements prepared in accordance with IFRS.

Assets and Liabilities Committee of the Bank examines the results of currency risk assessment on a monthly basis.

Operational risk

The Bank calculates the value of accepted operational risk – "risk appetite" – on an annual basis.

Risk appetite value is approved by the Operational Risk Management Division.

The calculation of actual losses caused by operational risks and monitoring of the Bank's compliance with the set "risk appetite" is performed on a monthly basis.

It should be noted that the calculation of risk appetite does not include past events that had one-off force-majeure nature and/or that are not expected to arise in the future due to elimination of their causes.

The system of operational risk management has been functioning since 2011 and includes, in particular:

- The Bank-wide consolidation of operational risk events:
- Annual self-assessment of operational risk;
- Annual stress testing of operational risk in accordance with the requirements of the National Bank of Ukraine;
- Quarterly monitoring of key risk indicators (KRIs).

Registered operational risk events are subject to a detailed review and assessment of adverse consequences, and the events requiring additional management decisions or development of additional mitigation measures are considered by ORMC Subcommittee or the Operational Risk Management Committee.

(in thousands of Ukrainian hryvnias)

30. Fair value measurements

Fair value of financial assets and liabilities not carried at fair value

Set out below is the comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried at amortised cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2016			2015 (reclassified)		
	Carrying value	**Fair value**	**Unrecognized gain/(loss)**	**Carrying value**	**Fair value**	**Unrecognized gain/(loss)**
Financial assets						
Cash on hand	1,162,368	1,162,368	–	1,244,442	1,244,442	–
Balance with the National Bank of Ukraine	1,213,522	1,213,522	–	897,908	897,908	–
Due from other banks						
- Current accounts and overnight deposits	3,713,137	3,713,137	–	3,007,605	3,007,605	–
- Term deposits with other banks	1,848,827	1,848,827	–	1,275,871	1,275,871	–
Loans to customers						
- Corporate loans	21,323,624	21,367,161	43,537	23,072,683	22,972,086	(100,597)
- Consumer loans	2,179,928	2,179,928	–	1,507,667	1,507,667	–
- Mortgage loans	303,155	280,715	(22,440)	877,022	803,525	(73,497)
- Car loans	26,026	18,921	(7,105)	73,896	49,300	(24,596)
- Other loans (overdrafts)	923,022	923,022	–	756,348	756,348	–
Financial liabilities						
Due to the National Bank of Ukraine	–	–	–	485,426	485,426	–
Due to other banks						
Current accounts of other banks	862,148	862,148	–	51,227	51,227	–
Term deposits of other banks	225,380	225,380	–	173,600	173,600	–
Loans from other banks	60,361	60,361	–	–	–	–
Customer accounts						
- legal entities	18,472,333	18,484,759	(12,426)	13,585,203	13,587,302	(2,099)
- individuals	14,713,183	14,778,171	(64,988)	13,999,554	14,042,718	(43,164)
Deposit certificates issued	691,371	691,371	–			
Eurobonds issued	4,290,540	4,415,166	(124,626)	4,722,461	3,305,723	1,416,738
Other borrowed funds	18,995	18,995	–	26,289	26,289	–
Subordinated debt	490,750	420,633	70,117	492,174	292,000	200,174
Total unrecognized change in unrealized fair value			**(117,931)**			**1,372,959**

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For the financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Financial assets and financial liabilities carried at amortised cost

For quoted debt issued the fair values are calculated based on quoted market prices at reporting date. For those instruments where quoted market prices are not available, and for those ones for which fair value differs from carrying amount, namely loans to customers, due from other banks, balances with the National Bank of Ukraine, due to other banks, customer accounts, deposit certificates, other financial assets and liabilities, a discounted cash flow model is used based on a current market rates offered for similar financial instruments with similar provisions, similar credit risk and maturity.

(in thousands of Ukrainian hryvnias)

30. Fair value measurements (continued)

Financial instruments recorded at fair value or fair value of which is disclosed

All the assets and liabilities whose fair value is measured or disclosed in the financial statements are classified by fair value sources hierarchy level presented below on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are directly or indirectly based on market data; and
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are not observable on the market.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

		Fair value measurement using			
31 December 2016	**Date of valuation**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value					
Ukrainian Government debt securities	31 December 2016	–	6,800,986	–	**6,800,986**
Forward currency contracts	31 December 2016	–	27,020	–	**27,020**
NBU deposit certificates	31 December 2016	–	2,602,485	–	**2,602,485**
Property and equipment – premises	01 December 2016	–	–	914,425	**914,425**
Works of art	01 December 2016	–	–	17,005	**17,005**
Investment property	01 December 2016	–	–	185,857	**185,857**
Assets for which fair values are disclosed					
Cash on hand and in transit	31 December 2016	1,162,368	–	–	**1,162,368**
Balance with the National Bank of Ukraine	31 December 2016	–	1,213,522	–	**1,213,522**
Due from other banks	31 December 2016	–	5,561,964	–	**5,561,964**
Loans to customers	31 December 2016	–	–	24,769,747	**24,769,747**
Shares	31 December 2016	–	–	7,057	**7,057**
Liabilities measured at fair value					
Forward currency contracts	31 December 2016	–	53,070	–	**53,070**
Liabilities for which fair values are disclosed					
Due to other banks	31 December 2016	–	1,147,889	–	**1,147,889**
Customer accounts	31 December 2016	–	–	33,262,930	**33,262,930**
Deposit certificates issued	31 December 2016	–	–	691,371	**691,371**
Eurobonds issued	31 December 2016	4,415,166	–	–	**4,415,166**
Other borrowed funds	31 December 2016	–	18,995	–	**18,995**
Subordinated debt	31 December 2016	–	420,633	–	**420,633**

(in thousands of Ukrainian hryvnias)

30. Fair value measurements (continued)

Assets and liabilities at fair value

Information about changes of value of premises, work of art and investment property during 2016 has been disclosed in Note 11.

		Fair value measurement using			
31 December 2015	**Date of valuation**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value					
Ukrainian Government debt securities	31 December 2015	–	434,568	–	**434,568**
Forward currency contracts	31 December 2015	–	17,376	–	**17,376**
NBU deposit certificates	31 December 2015	–	2,142,255	–	**2,142,255**
Property and equipment – premises	01 June 2015	–	–	983,035	**983,035**
Works of art	01 December 2015	–	–	17,014	**17,014**
Investment property	01 December 2015	–	–	188,554	**188,554**
Assets for which fair values are disclosed					
Cash on hand and in transit	31 December 2015	1,244,442	–	–	**1,244,442**
Balance with the National Bank of Ukraine	31 December 2015	–	897,908	–	**897,908**
Due from other banks	31 December 2015	–	4,283,476	–	**4,283,476**
Loans to customers	31 December 2015	–	–	26,088,926	**26,088,926**
Shares	31 December 2015	–	–	7,057	**7,057**
Liabilities measured at fair value					
Forward currency contracts	31 December 2015	–	13,878	–	**13,878**
Liabilities for which fair values are disclosed					
Due to the National Bank of Ukraine	31 December 2015	–	485,426	–	**485,426**
Due to other banks	31 December 2015	–	224,827	–	**224,827**
Customer accounts	31 December 2015	–	–	27,640,020	**27,640,020**
Eurobonds issued	31 December 2015	3,305,723	–	–	**3,305,723**
Other borrowed funds	31 December 2015	–	26,289	–	**26,289**
Subordinated debt	31 December 2015	–	292,000	–	**292,000**

The following is the description of the determination of fair value for the financial instruments which are recorded at fair value using the valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

The derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using the present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Securities

The securities valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using discounted cash flows models which sometimes only incorporate the data observable in the market, such as interest rates, and at other times use both observable and non-observable data. The non-observable inputs to the models include the assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

(in thousands of Ukrainian hryvnias)

30. Fair value measurements (continued)

Premises, works of art and investment property

The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach.

During 2016 and 2015, the Bank did not transfer any financial assets or financial liabilities between fair value hierarchy levels

During 2016 and 2015, the Bank recognised neither changes in the carrying values of the Level 3 financial assets at fair value nor resulting profit or loss.

31. Contingencies and commitments

Litigations

The Bank is involved in various legal proceedings in the ordinary course of business. On the basis of its own estimates and internal professional advice, the management does not believe the result of any such actions will have a material adverse effect on the Bank's financial position or results of operations. Thus, during the reporting period, the Bank was a subject of litigation with tax authorities for UAH 80,446 thousand. By the resolution of the District Administrative Court of Kyiv and ruling of the Kyiv Administrative Court of Appeal all tax notifications and decisions were deemed illegal and completely cancelled. As of the date of this financial statements, the cassational proceeding was initiated on complaint of the tax authorities against the above decisions, and the date of hearing of the case has not been specified yet. Management of the Bank believes that cash outflow is not possible, that is why no liabilities have been recognized.

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. The management of the Bank believes that its interpretation of the relevant legislation is appropriate, and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time.

Capital expenditure commitments

As at 31 December 2016, the Bank had capital expenditure commitments in respect of purchase of equipment of UAH 10,135 thousand (31 December 2015: UAH 23,443 thousand). The Bank's management has already allocated the necessary resources in respect of these commitments. The Bank's management believes that the future income and funding will be sufficient to cover these commitments and any similar commitments.

Compliance with covenants

The Bank is subject to certain covenants related primarily to Eurobonds issued and other borrowed funds. The non-compliance with such covenants may result in negative consequences for the Bank including the growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain a certain level of equity, capital adequacy ratio, liquid to total assets ratio, maximum exposure to a single party to capital ratio, maximum exposure to a single party which is a related party to the Bank to capital ratio, operating expenses to operating results ratio, fixed and intangible assets to capital ratio. The failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. The management believed that the Bank was in compliance with all covenants as at 31 December 2016 and 31 December 2015.

(in thousands of Ukrainian hryvnias)

31. Contingencies and commitments (continued)

Credit related commitments

The 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 risk of the clients' defaults or inability to perform the contracts with third parties. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of the customers authorising third parties to draw drafts on the Bank up to a stipulated amount under the 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 direct borrowings.

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 the credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to the deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash needs, as these financial instruments may expire or terminate without being funded.

The letters of credit issued by the Bank are as follows:

	2016	2015
Confirmed export letters of credit	1,111,086	836,660
Non-confirmed import letters of credit	123,034	158,614
Cash collateral (Note 15)	(1,195,531)	(851,628)
Provision for import letters of credit	(248)	(1,497)
Total letters of credit	**38,341**	**142,149**

The guarantees issued are as follows:

	2016	2015
Guarantees and promissory note endorsements	1,555,047	1,222,613
Cash collateral (Note 15)	(386,592)	(122,456)
Provision for guarantees and avals	(11,268)	(13,472)
Guarantees and promissory note endorsements	**1,157,187**	**1,086,685**

The Bank's outstanding irrevocable commitments to extend credit were as follows:

	2016	2015
Commitments to extend credit	-	619,588
Cash collateral	-	(34,634)
Total irrevocable commitments to extend credit	**-**	**584,954**

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2016 was UAH 4,892,266 thousand (31 December 2015: UAH 4,522,309 thousand). The management considers the commitments to extend credit as revocable due to the fact that the Bank can stop further financing of the client or early cancel the credit limit funds based on the agreements providing for a wide range of the trigger events for early cancellation of credit limits, such as worsening of the client's financial condition, decrease in volume of cash inflows to the clients' current accounts, loss of collateral or substantial decrease in its fair value, decisions of the regulatory bodies impacting the Ukrainian money market.

(in thousands of Ukrainian hryvnias)

31. Contingencies and commitments (continued)

The movements in the provision for the letters of credit and guarantees were as follows:

	2016	2015
Provision for commitments, guarantees and letters of credit at the beginning of the period	**14,969**	**13,028**
Charge to provision for commitments, guarantees and letters of credit during the reporting period	(2,513)	22
Translation differences	1,143	1,919
Provision for letters of credit and guarantees as at 31 December (Note 19)	**13,599**	**14,969**

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under cancellable operating leases of premises were as follows:

	2016	2015
Within 1 year	14,518	61,480
From 1 to 5 years	102,583	33,659
Later than 5 years	-	1,480
Total operating lease commitments	**117,101**	**96,619**

(in thousands of Ukrainian hryvnias)

32. Related party transactions

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2016 and as at 31 December 2015 and income and expenses for 2016 and 2015 are as follows:

As at and for the year ended 31 December 2016	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a.)	-	1,698,595 (13.98)	169 (31.49)	2 (37.0)
Allowance for loan impairment	-	(15,577)	(1)	-
Other assets	7	9,611	-	-
Liabilities	-	-	-	-
Customer accounts (interest rate, % p.a.)	(88)	(7,243,412) (8.96)	(34,207) (7.72)	(112,227) (7.65)
Deposit certificates issued	-	(435,041)	-	-
Other liabilities	-	(1,273)	(4)	(10)
Credit related commitments				
Revocable commitments to extend credit	-	193,715	184	416
Guarantees and avals	-	114,422	-	-
Letters of credit	-	169,052	-	-
Income/(expense)				
Interest income	-	251,462	26	8
Interest expense	-	(322,995)	(2,550)	(7,433)
Fee and commission income	83	259,803	65	699
Fee and commission expense	-	(867)	(2)	(8)
Other income	-	39	9	12
Charge to provision for commitments, guarantees and letters of credit	-	2	-	-
Allowance for loan impairment	-	1,611	(1)	-
Operating expenses	-	(2)	(820)	-

(in thousands of Ukrainian hryvnias)

32. Related party transactions (continued)

As at and for the year ended 31 December 2015	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a.)	-	1,518,050 (15.76)	184 (23.13)	1
Allowance for loan impairment	-	(17,188)	-	-
Other assets	-	381	-	-
Liabilities				
Customer accounts (interest rate, % p.a.)	(47)	(4,836,942) (10.47)	(26,218) (13.18)	(57,875) (11.32)
Other liabilities	-	(619)	(3)	(9)
Credit related commitments				
Revocable commitments to extend credit		156,542	197	357
Guarantees and avals		4,250		
Letters of credit		12,821		
Income/(expense)				
Interest income	-	144,762	26	1
Interest expense	-	(394,681)	(2,580)	(4,917)
Fee and commission income	9	205,602	18	327
Fee and commission expense	-	(419)	(1)	(5)
Other income	-	354,213	1	3
Allowance for loan impairment	-	(15,303)	-	-
Operating expenses	-	(4,871)	(731)	(6)

The allowance for loan impairment in respect of loans to related parties has been assessed on a portfolio basis in respect of the majority of loans.

Aggregate amounts lent to and repaid by related parties during 2016 were as follows:

	Parent company	Entities under common control	Management	Other related parties
Amounts lent to related parties during the year	-	683,178	33	1
Amounts repaid by related parties during the year	-	(735,772)	(49)	-
Other change	-	233,139	1	-

Aggregate amounts lent to and repaid by related parties during 2015 were as follows:

	Parent company	Entities under common control	Management	Other related parties
Amounts lent to related parties during the year	-	728,724	35	1
Amounts repaid by related parties during the year	-	(1,203,269)	(91)	-
Other change	-	301,988	-	-

In 2016, the remuneration of the members of the Management Board comprised salaries of UAH 71,744 thousand (2015: UAH 60,473 thousand), compulsory contributions to the State funds of UAH 1,083 thousand (2015: UAH 1,045 thousand). In 2016, the remuneration to the members of the Supervisory Board comprised UAH 810 thousand (2015: nil).

(in thousands of Ukrainian hryvnias)

33. Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period without regard to shares repurchased. The Bank does not have converted preferred shares, thus diluted earnings per share is equal to basic earnings per share.

	2016	2015
Net income/(loss) for the reporting period	367,011	(1,752,470)
Weighted average number of ordinary shares outstanding during the period	14,323,880	14,323,880
Income/(loss) per share, basic (in hryvnia per share)	**25.62**	**(122.35)**

34. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 4,088,984 thousand as at 31 December 2016 (31 December 2015: UAH 3,796,256 thousand).

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amounts of dividend payments to the shareholders, return the capital to the shareholders or issue capital securities. No changes were made in the objectives, policies and processes since the previous years.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on the Ukrainian accounting rules. As at 31 December 2016 and 2015, the Bank's capital adequacy ratio on this basis was as follows:

	2016	2015
Main capital	2,852,869	2,882,280
Additional capital	1,236,115	913,976
Withdrawals	(5,735)	(5,735)
Total equity	**4,083,249**	**3,790,521**
Risk-weighted assets	**31,861,941**	**33,562,398**
Capital adequacy ratio	**12.82%**	**11.29%**

The regulatory capital consists of the main capital, which comprises paid-in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets and losses of current and prior years decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest. In addition, the main capital is decreased for the amount by which uncovered credit risk exceeds the prior year income. The other component of the regulatory capital is additional capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest, long-term subordinated debt, retained earnings of prior years decreased for the amount of the uncovered credit risk.

As at 31 December 2016 and 2015, the Bank was compliant with the regulatory requirements to capital.

The Bank is also subject to minimum capital requirements established by the covenants stated in the loan agreements, including the capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated in April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated in November 2005), commonly known as Basel I. The Bank complied with such requirements.

(in thousands of Ukrainian hryvnias)

34. Capital (continued)

As at 31 December 2016 and 2015, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2016	2015
Tier 1 capital		
Share capital	3,294,492	3,294,492
Share premium	101,660	101,660
Reserve fund	1,475,430	1,475,430
Retained earnings	(1,363,308)	(1,740,993)
Total tier 1 capital	**3,508,274**	**3,130,589**
Tier 2 capital		
Asset revaluation reserves	540,021	536,060
Eligible subordinated debt	490,750	492,174
Total tier 2 capital	**1,030,771**	**1,028,234**
Total equity	**4,539,045**	**4,158,823**
Capital adequacy ratio at 31 December		
Risk-weighted assets	32,358,026	31,507,812
Total equity	4,539,045	4,158,823
Capital adequacy ratio (%)	**14.03%**	**13.20%**

Signed on behalf of the Management Board on 13 March 2017

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)