PRIVATBANK GROUP

Consolidated financial statements and Independent Auditor's Report

31 December 2016

Translation from Ukrainian original

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Independent auditor's report

To the Shareholder and Supervisory Board of
Public Joint Stock Company Commercial Bank "PrivatBank"

We were engaged to audit the consolidated financial statements of Public Joint Stock Company Commercial Bank "PrivatBank" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Disclaimer of opinion on the financial performance and cash flows

We do not express an opinion on the financial performance and cash flows. Because of the significance of the matters described in the *Basis for disclaimer of opinion on the financial performance and cash flows* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial performance and cash flows.

Basis for disclaimer of opinion on the financial performance and cash flows

- In 2016, the Group recognised an impairment charge of UAH 154,536 million in respect of loans and advances to customers. We were unable to obtain sufficient appropriate audit evidence about the period this impairment loss relates to. As a result, we were unable to determine whether any adjustments were necessary to the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity for 2016 and 2015.

- In 2016, the Group carried out a restructuring of loans and advances to customers with carrying value before allowance for impairment of UAH 137,082 million as at 31 December 2016. We were unable to obtain sufficient appropriate audit evidence in respect of the effects of the restructuring of such loans on the consolidated statement of profit or loss and other comprehensive income. As a result, we were unable to determine whether any adjustments were necessary to impairment charge on loans and advances to customers, losses on initial recognition of financial assets with lower than market interest rates and interest income for 2016.

- We were unable to obtain sufficient appropriate audit evidence in respect of related party transactions for the period from 1 January 2016 to 19 December 2016, the date of the change in shareholders. As a result, we were unable to determine whether any adjustments were necessary to the disclosure of related party transactions presented in Note 30 to the consolidated financial statements.

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Departures from International Financial Reporting Standards in respect of the financial performance and cash flows

- In 2016, the Group recognised loss on the redemption of financial liabilities of UAH 1,363 million related to the prior period within interest expense and foreign exchange translation losses. As a result, interest expense, foreign exchange translation losses less gains for 2016 and retained earnings as at 31 December 2015 were overstated by UAH 840 million, UAH 523 million and UAH 1,363 million, respectively.

- The Group recognised UAH 317 million of impairment losses on other assets related to prior periods within administrative and other operating expenses for 2016. As a result, administrative and other operating expenses for 2016 and retained earnings as at 31 December 2015 were overstated by UAH 317 million.

Qualified opinion on the financial position

In our opinion, except for the possible effects of the matters described in paragraphs (1), (3), (4), (5) and (7) in the *Basis for qualified opinion on the financial position* section of our report, and except for the effects of the matters described in paragraphs (2) and (6) of the *Basis for qualified opinion on the financial position* section of our report, the accompanying consolidated statement of the financial position presents fairly, in all material respects, the financial position of the Group as at 31 December 2016 in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion on the financial position

1. As at 31 December 2016, the Group recognised repossessed properties of UAH 21,356 million within repossessed collateral, UAH 1,095 million within investment property and UAH 266 million within premises, leasehold improvements, equipment and intangibles. As described in Note 28 to the consolidated financial statements, in 2016 repossessed collateral with a value of UAH 7,103 million was settled against derivatives embedded in loans issued to customers. We were unable to obtain sufficient appropriate audit evidence in respect of the fair value of repossessed properties. As a result, we were unable to determine whether any adjustments were necessary to the amounts of repossessed collateral, investment property and premises, leasehold improvements, equipment and intangibles as at 31 December 2016 and losses less gains from embedded derivatives and other operating income for 2016.

2. The Group did not perform an analysis of whether criteria for derecognition were met in respect of amounts due to customers of UAH 8,878 million that are subject to conversion into equity as described in Note 1 to the consolidated financial statements. Such amounts due to customers, and a corresponding receivable of UAH 8,878 million, as described in Note 13, were recognised in the consolidated statement of financial position of the Group as at 31 December 2016. This receivable does not meet the definition of an asset in accordance with IFRS. As a result, the Group's other assets were overstated by UAH 8,878 million as at 31 December 2016. The effect of not analysing the derecognition criteria for amounts due to customers on the Group's liabilities and equity has not been determined.

3. As at 31 December 2016, the Group recognised internally generated intangible assets (software development) of UAH 339 million within premises, leasehold improvements, equipment and intangibles. We were unable to obtain sufficient appropriate audit evidence as to the date when such intangible assets should be recognised initially and their initial cost. As a result, we were unable to determine whether any adjustments were necessary to the carrying value of premises, leasehold improvements, equipment and intangibles as at 31 December 2016.

4. As disclosed in Note 7, the Group lost control over a subsidiary in December 2016 and recognised the remaining investment as investment in an associate of UAH 507 million. We were unable to obtain sufficient appropriate audit evidence in respect of the fair value of the investment retained recognised at the date of loss of control. As a result, we were unable to determine whether any adjustments were necessary to the carrying value of investment in associates as at 31 December 2016 and to the financial result of loss of control over subsidiary recognised in 2016.

5. In 2016, the Group derecognised assets and liabilities with carrying value of UAH 725 million and UAH 892 million as at 31 December 2015 as a result of loss of control over subsidiary. We were unable to obtain sufficient appropriate audit evidence as to the fact of loss of control by the Group. As a result, we were unable to determine whether any adjustments were necessary to the consolidated statement of financial position as at 31 December 2016.

6. As at 31 December 2016, the Group did not recognise obligations of UAH 637 million under IAS 37 "Provisions, Contingent liabilities and Contingent assets". Accordingly, provisions for liabilities and charges, other financial and non-financial liabilities and administrative and other operating expenses were understated by UAH 637 million.

7. As at 31 December 2016, the Group recognised an allowance for impairment of UAH 3,044 million on loans and advances to customers with the carrying value of UAH 17,730 million before allowance for impairment. We were unable to obtain sufficient appropriate audit evidence in respect of expected future cash flows from sale of collateral used to estimate the impairment allowance. As a result, we were unable to determine whether any adjustments were necessary to the amount of impairment allowance on such loans as at 31 December 2016.

We conducted our audit of the consolidated statement of financial position of the Group as at 31 December 2016 in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group 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 consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the financial position of the Group as at 31 December 2016.

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Emphasis of matter

We draw attention to Note 2 to the consolidated financial statements, which describes the operating environment in Ukraine. The circumstances referred to in Note 2 could continue to adversely affect the Group's financial position and performance in a manner not currently determinable. Our opinion is not further modified 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 consolidated statement of financial position as at 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion on the financial position thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion on the financial position* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated 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 consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide a basis for our qualified audit opinion on the accompanying consolidated statement of financial position.

Valuation of allowance for impairment of loans and advances to customers

The appropriateness of allowance for impairment on loans and advances to customers is a key area of judgment for the Group's management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and fair value of collateral.

The use of different modelling techniques and assumptions could produce significantly different estimates of allowance for impairment on loans and advances to customers. Taking into account the significance of the loans and advances to customers balances (25% of total assets) and high level of subjectivity of assumptions, we considered valuation of allowance for impairment on loans and advances to customers as a key audit matter.

Our audit procedures included the assessment of the methodology used by the Group to identify impairment indications and calculation of allowance for impairment, testing of input data and analysis of assumptions. For the allowance for impairment calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification including assessment of financial condition of the counterparty, forecasts of future cash flows and valuation of underlying collateral. For the allowance for impairment calculated on a collective basis, we tested the underlying models including the inputs to those models and their mathematical accuracy.

We assessed the Group's information about the allowance for impairment on loans and advances to customers disclosed in Notes 10, 25 and 28 to the consolidated financial statements.

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Valuation of government bonds

Valuation of government bonds and related embedded derivate financial instruments was a key area of judgments for management due to complexity of estimations and subjective valuation techniques. Taking into account the significance of the carrying amount of government bonds and related embedded derivative financial instruments to the consolidated financial statements and related estimation uncertainty, we considered valuation of the above assets as a key audit matter.

Notes 11 and 28 to the consolidated financial statements provides information on the government bonds and related embedded derivative financial instruments.

Our audit procedures in respect of the valuation of government bonds included inquiries of the Group's management about the significant assumptions applied, assessment and testing of inputs used, assessing mathematical accuracy of the calculation and comparing the results in the models to the amounts recognised in the consolidated statement of financial position as at 31 December 2016. We involved our valuation specialists to evaluate the methodology and assumptions used. We assessed the Group's disclosures in relation to the government bonds and related derivative financial instruments.

Other matter

The consolidated financial statements of Public Joint Stock Company Commercial Bank "PrivatBank" and its subsidiaries as at 31 December 2015 and for the year then ended were audited by another auditor who issued an auditor's report dated 30 June 2016 with a qualified opinion in respect of the fact that at the date of those auditor's report management has not completed its assessment of the possible impact of repossession of collateral on the Group's related parties list and the respective disclosure in the consolidated financial statements, and an emphasis of matter paragraph drawing attention to political and economic uncertainties in Ukraine.

Other information

Other information consists of the Annual report of Public Joint Stock Company Commercial Bank "PrivatBank" other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report of Public Joint Stock Company Commercial Bank "PrivatBank" is expected to be provided to us after the date of this auditor's report.

Our opinion on the consolidated statement of financial position does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report.

However, because of the matters described in the *Basis for disclaimer of opinion on the financial performance and cash flows* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial performance and cash flows.

Our objectives are to obtain reasonable assurance about whether the consolidated statement of financial position as at 31 December 2016 as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the financial position. 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 the financial statement.

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

- Identify and assess the risks of material misstatement of the consolidated statement of financial position, 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated statement of financial position, including the disclosures, and whether the consolidated statement of financial position represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated statement of financial position. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 it 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 consolidated statement of financial position as at 31 December 2016 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

25 May 2017

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№1
«Ернст енд Янг Аудиторські Послуги»
Ідентифікаційний код 33306921

Berchiy O.V.
Acting General Director

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

In millions of Ukrainian hryvnias	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents and mandatory reserves	8	30,159	35,609
Other financial assets at fair value through profit or loss		-	238
Due from banks	9	2,410	3,689
Loans and advances to customers	10	43,582	195,339
Embedded derivative assets	10,11	27,044	30,673
Investment securities available-for-sale	11	64,409	2,060
Investment securities held to maturity		-	766
Current income tax prepayment		181	102
Goodwill		-	82
Investments in associates		507	-
Investment properties		1,358	-
Premises, leasehold improvements, equipment and intangible assets	12	4,019	4,651
Other financial assets		269	289
Other assets	13	9,585	1,238
Repossessed collateral	14	21,836	6
Non-current assets held for sale		-	192
TOTAL ASSETS		**205,359**	**274,934**
LIABILITIES			
Due to the NBU	15	18,047	27,079
Due to banks and financial institutions	16	2,667	4,476
Customer accounts	17	181,128	191,910
Debt securities in issue		2	9,145
Current income tax liability		1	-
Deferred income tax liability	23	95	1,012
Provisions for liabilities and charges, other financial and non-financial liabilities	18	4,010	2,801
Subordinated debt		122	9,466
TOTAL LIABILITIES		**206,072**	**245,889**
EQUITY			
Share capital	19	50,695	21,257
Share premium	19	23	23
Contributions received for new shares issued but not registered	19	111,591	-
Revaluation reserve of premises	12	820	568
Revaluation reserve of investment securities available-for-sale		521	1,493
Result from transactions with the owner	19	9,934	-
Currency translation reserve		29	815
(Accumulated deficit)/Retained earnings		(174,327)	4,312
Net assets attributable to the Bank's owners		**(714)**	**28,468**
Non-controlling interest		**1**	**577**
TOTAL EQUITY		**(713)**	**29,045**
TOTAL LIABILITIES AND EQUITY		**205,359**	**274,934**

Approved for issue and signed on 16 May 2017.

Olexandr V. Shlapak
Chairman of the Board

Valentyna V. Yarmolenko
Chief Accountant

In millions of Ukrainian hryvnias	Note	2016	2015
Interest income	20	33,457	31,154
Interest expense	20	(29,474)	(28,857)
Net interest income		**3,983**	**2,297**
Provision for impairment of loans and advances to customers	10	(154,536)	(3,789)
Net interest income after provision for impairment of loans and advances to customers		**(150,553)**	**(1,492)**
Fee and commission income	21	10,692	6,998
Fee and commission expense	21	(2,298)	(1,703)
Gains less losses from other financial assets at fair value through profit or loss		208	-
(Losses less gains)/gains less losses from embedded derivatives	28	(23,955)	6,517
Losses less gains from trading in foreign currencies		(188)	(1,585)
Foreign exchange translation (losses less gains)/gains less losses		(4,221)	101
Other operating income		1,712	474
Net gains from disposal of subsidiaries	7	176	227
Gains from investment securities available-for-sale		1,981	-
Administrative and other operating expenses	22	(10,774)	(9,065)
(Loss)/profit before tax		**(177,220)**	**472**
Income tax benefit/(expense)	23	576	(197)
Net (loss)/profit for the year		**(176,644)**	**275**
Other comprehensive income/(loss):			
Items that will be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- Unrealised gains on investment securities available-for-sale		609	913
- Realised gains reclassified to profit or loss on investment securities available-for-sale		(1,981)	-
- Gains less losses reclassified to profit or loss upon disposal of subsidiaries	7	5	-
Income tax effect	23	312	(136)
Exchange differences on translation to presentation currency			
- Differences on translation to presentation currency arising during the year		122	660
- Differences on translation to presentation currency reclassified to profit or loss upon disposal of subsidiaries	7	(590)	(254)
Items that will not be reclassified to profit or loss:			
Revaluation of premises		351	-
Income tax effect	23	(62)	-
Other comprehensive (loss)/income		**(1,234)**	**1,183**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(177,878)**	**1,458**
Profit/(loss) is attributable to			
Owners of the Bank		(176,462)	326
Non-controlling interest		(182)	(51)
(Loss)/profit		**(176,644)**	**275**
Total comprehensive (loss)/income is attributed to:			
Owners of the Bank		(177,667)	1,214
Non-controlling interest		(211)	244
Total comprehensive (loss)/income		**(177,878)**	**1,458**
Earnings per share for (loss)/income attributable to the owners of the Bank, basic and diluted (expressed in UAH per share)	19	**(2,233.70)**	**4.62**

Approved for issue and signed on 16 May 2017.

Olexandr V. Shlapak
Chairman of the Board

Valentyna V. Yarmolenko
Chief Accountant

In millions of Ukrainian hryvnias	Note	Attributable to the owners of the Bank: Share capital	Share premium	Contributions received for new shares issued but not registered	Revaluation reserve of premises	Revaluation reserve of investment securities available-for-sale	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2015		**18,101**	**20**	**1,000**	**588**	**805**	**672**	**3,909**	**25,095**	**638**	**25,733**
Profit/(loss) for the year		-	-	-	-	-	-	326	326	(51)	275
Other comprehensive income		-	-	-	(3)	688	143	60	888	295	1,183
Total other comprehensive (loss)/income for the year		-	-	-	(3)	688	143	386	1,214	244	1,458
Contributions received for new shares issued	19	3,156	3	(1,000)	-	-	-	-	2,159	-	2,159
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(17)	-	-	17	-	-	-
Disposal of subsidiary	7	-	-	-	-	-	-	-	-	(305)	(305)
Balance at 31 December 2015		**21,257**	**23**	**-**	**568**	**1,493**	**815**	**4,312**	**28,468**	**577**	**29,045**

(Continued)

In millions of Ukrainian hryvnias	Note	Attributable to the owner of the Bank: Share capital	Share premium	Contributions received for new shares issued but not registered	Revaluation reserve of premises	Revaluation reserve of investment securities available-for-sale	Result from transactions with the owner	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016		**21,257**	**23**	**-**	**568**	**1,493**	**-**	**815**	**4,312**	**28,468**	**577**	**29,045**
Loss for the year		-	-	-	-	-	-	-	(176,462)	(176,462)	(182)	(176,644)
Other comprehensive income		-	-	-	289	(972)	-	(522)	-	(1,205)	(29)	(1,234)
Total other comprehensive income		-	-	-	289	(972)	-	(522)	(176,462)	(177,667)	(211)	(177,878)
Conversion of liabilities to equity	19	29,438	-	-	-	-	-	-	-	29,438	-	29,438
Increase in share capital financed by government bonds	19	-	-	107,000	-	-	-	-	-	107,000	-	107,000
Effect from initial recognition of government bonds received as a contribution into the share capital	19	-	-	-	-	-	9,934	-	-	9,934	-	9,934
Other increase in share capital	19	-	-	4,591	-	-	-	-	(2,583)	2,008	-	2,008
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(12)	-	-	-	12	-	-	-
Other changes in interest attributable the Bank's owner and non-controlling interest		-	-	-	-	-	-	-	105	105	165	270
Disposal of subsidiaries	7	-	-	-	(25)	-	-	(264)	289	-	(530)	(530)
Balance at 31 December 2016		**50,695**	**23**	**111,591**	**820**	**521**	**9,934**	**29**	**(174,327)**	**(714)**	**1**	**(713)**

Approved for issue and signed on 16 May 2017.

Olexandr V. Shlapak
Chairman of the Board

Valentyna V. Yarmolenko
Chief Accountant

In millions of Ukrainian hryvnias	Note	2016	2015
Cash flows from operating activities			
Interest received		24,267	27,980
Interest paid		(29,819)	(28,017)
Fee and commission received		10,692	6,998
Fee and commission paid		(2,298)	(1,703)
Income received/(losses incurred) from embedded derivatives		953	(12,197)
Income received from trading in foreign currencies		(136)	(1,550)
Other operating income received		676	504
Income received from other financial assets at fair value through profit or loss		208	-
Staff costs paid		(3,441)	(3,612)
Administrative and other operating expenses paid, except for staff costs paid		(5,377)	(4,733)
Income tax paid		(104)	(68)
Cash flow used in operating activities before changes in operating assets and liabilities		**(4,379)**	**(16,398)**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(1,199)	(57)
Net increase in other financial assets at fair value through profit or loss		238	(227)
Net decrease in due from banks		2,233	18,683
Net increase in loans and advances to customers		(3,505)	(6,700)
Net decrease in other financial assets		(792)	(48)
Net increase in other assets		138	481
Net increase in due to banks and financial institutions		1,096	638
Net (decrease)/increase in customer accounts		(15,184)	6,254
Net (decrease)/increase in provisions for liabilities and charges, other financial and non-financial liabilities		(388)	454
Net cash (used in)/from operating activities		**(21,742)**	**3,080**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		-	(60)
Proceeds from sale of investment securities available-for-sale		27,886	98
Acquisition of investment securities held to maturity		-	(48)
Proceeds from redemption of investment securities held to maturity		263	266
Proceeds from sales of premises, leasehold improvements and equipment	12	10	42
Acquisition of premises, leasehold improvements, equipment and intangible assets	12	(1,224)	(1,148)
Acquisition of non-current assets held for sale		-	(192)
Disposal of subsidiaries	7	(3,372)	(863)
Net cash from/(used in) investing activities		**23,563**	**(1,905)**
Cash flows from financing activities			
Proceeds from NBU	15	25,000	9,700
Repayment to NBU		(33,663)	(1,493)
Issue of ordinary shares	19	-	2,159
Proceeds from subordinated debt		-	1,718
Repayment of debt securities issued		(1,010)	(2,132)
Net cash (used in)/from financing activities		**(9,673)**	**9,952**
Effect of exchange rate changes on cash and cash equivalents		**1,203**	**3,734**
Net (decrease)/increase in cash and cash equivalents		**(6,649)**	**14,861**
Cash and cash equivalents at the beginning of the year		35,322	20,461
Cash and cash equivalents at the end of the year	8	**28,673**	**35,322**

Approved for issue and signed on 16 May 2017.

Olexandr V. Shlapak
Chairman of the Board

Valentyna V. Yarmolenko
Chief Accountant

Operating and financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are disclosed in Note 8.

1 Introduction

Public Joint Stock Company Commercial Bank PrivatBank ("PJSC PrivatBank" or "the Bank") and its subsidiaries (together referred to as the "Group") was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. In 2009 the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation. As at 31 December 2015 according to the share registers the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who owned directly and indirectly respectively 49.99% and 41.59% of the outstanding shares and neither of which individually controlled the Bank. As at 31 December 2015, the major shareholders of the Group did not have a contractual agreement on joint control of the Bank.

Nationalisation of the Bank

On 18 December 2016, the Deposit Guarantee Fund of Ukraine ("the DGF") has appointed a temporary administrator to manage activities of the Bank following the decision of the NBU to declare it insolvent. At the same date, the Government of Ukraine adopted a decision to become a sole shareholder of the Bank through the Ministry of Finance.

On 19-21 December 2016, in accordance with the provisions of the Law of Ukraine "On deposit guarantee system", the DGF dismissed the Management and the Supervisory Boards of the Bank and was solely responsible for managing the Bank's activities during these three days. The DGF recognised UAH 155,764 million of allowance for impairment of loans and advances to customers and converted UAH 10,934 million of amounts due to customers, UAH 10,721 million of Eurobonds issued and UAH 7,783 million of subordinated debt into the Bank's share capital ('bail in'). On 21 December 2016, subsequent to bail in, the Bank's shares were sold to the Ministry of Finance of Ukraine for UAH 1. In December 2016, the Ministry of Finance took a decision to increase the Bank's share capital by UAH 116,800 million. Refer Note 19.

As at 31 December 2016, and thereafter, the Ministry of Finance of Ukraine continues to be the sole shareholder of the Bank and the Bank is ultimately controlled by the Government of Ukraine.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the State deposit insurance plan (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). As at 31 December 2016 and 2015, the Deposit Guarantee Fund of Ukraine guarantees repayment of individual deposits up to UAH 200 thousand per individual in case Bank liquidation procedure is started.

As at 31 December 2016, the Bank had 30 branches and 2,445 outlets in Ukraine and a branch in Cyprus (31 December 2015: 30 branches, 2,589 outlets in Ukraine and a branch in Cyprus). Additionally, as at 31 December 2016 the Bank had an associate in Latvia (31 December 2015: a subsidiary in Latvia) and representative office in Kyiv (Ukraine) and London (the United Kingdom), several structured entities in Ukraine and the United Kingdom.

The principal subsidiaries, included in the consolidated financial statements, were as follows:

Name	Nature of business	Country of registration	Percentage of ownership 31 December 2016	Percentage of ownership 31 December 2015
AS PrivatBank	Banking	Latvia	-	50.02%

In 2016, the Group lost of control over subsidiary in Latvia. In January 2015, the Group disposed of 57.86 % of the share capital of JSC PrivatBank (Georgia). Refer to Note 7.

Registered address and place of business. The Group's registered address as at the date of these consolidated financial statements is:

50, Naberezhna Peremohy Str.,
49094, Dnipro,
Ukraine.

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

2 Operating Environment of the Group

The Group conducts most of 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. 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.

The weakness of the national currency, which experienced more than triple devaluation against US dollar since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued volatility in the country's traditional export commodity markets, and high inflation represent key risks to the stabilisation of the Ukrainian operating environment in the near future. The continued support from the IMF and other international donors is contingent upon the mentioned above structural reforms sustaining momentum.

The known and estimable effects of the above factors on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements.

Since 2014, the Group 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. Specific effects of the secession of Crimea and the ongoing conflict in the Donetsk and Lugansk regions of Ukraine are disclosed further in Notes 4, 10 and 27 of these consolidated financial statements.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effect to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.

3 Summary of Significant Accounting Policies

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

The Group prepares consolidated financial statements in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine", Regulation on Accounting and Financial reporting in Ukrainian Banks adopted by the National Bank of Ukraine, as well as other regulations of the National Bank of Ukraine to the extent that they are in line with applicable international standards.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 28.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents include Cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

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

Mandatory cash balances with the Central Banks. Mandatory cash balances with the Central Banks are carried at amortised cost and are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

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

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

For the purposes of credit quality analysis the Group categories loans and advances to the corporate clients, SME and private entrepreneurs into large, medium and small borrowers based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

For the purposes of credit quality analysis the Group categories loans and advances to individuals based on the size of the loan exposure:

Loans between UAH 1-100 million
Loans less than UAH 1 million

When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous conditions, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that, no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

3 Summary of Significant Accounting Policies (Continued)

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Group. This approach ensures that the impact of losses which have not yet been specifically identified is included in the estimation of loan loss impairment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

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

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

Repossessed collateral. Repossessed collateral represents financial and non-financial assets repossessed by the Group in settlement of past due loans. The assets are initially recognised at lower of fair value or gross carrying value of the related loans. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and accumulated impairment losses, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the period. The revaluation reserve of premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Management has updated the carrying value of premises carried on a revalued basis as at the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at cost less impairment where required. Construction in progress is not depreciated until the asset is available for use.

All other items of premises, leasehold improvements and equipment are stated at cost.

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

3 Summary of Significant Accounting Policies (Continued)

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the period to the extent it exceeds the previous revaluation surplus in equity. 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 period.

Depreciation. Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years
Computers	2-10 years
Furniture and equipment	4-10 years
Motor vehicles	5-20 years
Other	4-12 years

Leasehold improvements are depreciated over the term of the underlying lease. The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives from 2 to 5 years.

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

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the period.

Impairment losses are recognised in profit or loss for the period when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

3 Summary of Significant Accounting Policies (Continued)

Due to Banks and financial institutions. Amounts due to banks and financial institutions are recorded when money or other assets are advanced to the Group by counterparty banks or other financing institutions. The non-derivative liability is carried at amortised cost.

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

Debt securities in issue. Debt securities in issue include UAH denominated bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options are carried at their fair value.

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

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

When the fair value of derivative does not change in response to the changes in the foreign exchange rates and other variables and future cash flows from the embedded derivative become certain the Group ceased to account for an embedded derivative and recognises a receivable within other financial assets. The receivable continues to be measured at fair value through profit or loss until settled.

Derecognition of financial liabilities. The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between the Group and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. Terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with 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 profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

3 Summary of Significant Accounting Policies (Continued)

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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period 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 and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group 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. Please refer to Note 4 for significant assumptions used.

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

Profit or loss arising from transactions with the owner is recognised in equity under "Result from transactions with the owner".

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

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss. All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

3 Summary of Significant Accounting Policies (Continued)

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, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Group, and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the NBU are recognised in profit or loss for the period (as foreign exchange translation gains less losses). Translation at period-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) components of equity are translated at the historic rate; and
(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

	31 December 2016, UAH	Average 2016, UAH	31 December 2015, UAH	Average 2015, UAH
1 US Dollar (USD)	27.190858	25.545773	24.000667	21.821706
1 Euro (EUR)	28.422604	28.282835	26.223129	24.200490

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting period.

3 Summary of Significant Accounting Policies (Continued)

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

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented by category: demand and less than 1 month, from 1 to 3 months, from 3 to 12 months, over 1 year. Refer to Note 25.

Reclassifications. The following reclassifications have been made to 2015 balances to conform to the 2016 presentation.

In millions of Ukrainian hryvnias	As previously reported	Reclassification	As adjusted
Statement of profit or loss and other comprehensive income			
Interest income	30,823	331	31,154
Fee and commission income	7,329	(331)	6,998
Statement of cash flows			
Interest received	27,649	331	27,980
Fee and commission received	7,329	(331)	6,998

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Going concern and compliance with local regulatory requirements. These financial statements have been prepared on the going concern basis, which assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of business.

For the year ended 31 December 2016, the Group recognised a net loss of UAH 176,644 million resulting primarily from UAH 154,536 million of charge for impairment of loans and advances to customers, and it experienced net cash outflow from its operating activities of UAH 21,793 million. The Group's negative equity position was UAH 713 million as at 31 December 2016. In addition, the Group had a gap of UAH 132,383 million between assets and liabilities with maturity of less than one year, which may lead to the Group's inability to meet its payment obligations. Also, as at 31 December 2016, the Bank was not in compliance with capital adequacy ratio, maximum exposure to a single borrower, long open currency position and short open currency position ratios established by the National Bank of Ukraine. Refer to Notes 15 and 26.

In February 2017, the Group's share capital was further increased by UAH 9,800 million.

According to the "Letter of Intent" addressed to the International Monetary Fund dated 2 March 2017 and signed by the President, the Prime Minister, the Minister of Finance and the Governor of the National Bank of Ukraine (the Letter), Ukraine is taking decisive steps to ensure that the nationalization of the Group is efficient and transparent. The Letter states that by the end of May 2017 the Ministry of Finance will decide on final steps to complete the Group's restructuring, including the coverage of any additional capital needs assessed at that time.

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

In addition, the Letter envisaged involvement of an internationally recognized firm that, on behalf of the Group will negotiate the restructuring and collection terms of the loans with a gross carrying value of approximately UAH 155 billion, as well as of other impaired loans, which requires the use of similar approach, on the basis of international best practices, including as a minimum borrowers' and lessees' reliable and credible supporting information on ultimate beneficiary owners, financials, main activities. The firm was selected by the Supervisory Board of the Group in April 2017.

In January 2017, management of the Group set up a separate department on restructuring of toxic assets, which performed analysis of and categorized the portfolio of assets with a total carrying value (gross) of UAH 193,889 million as at 31 December 2016. In addition, the Group's management approved the Group's financial model, which comprise, in particular, the following steps:

- increase in profitability of banking products;
- expansion of alternative distribution channels;
- increase in credit card issuance;
- decrease in overheads including expenses on the branch network.

The Group's management analysed all available sources of material information uncertainty. Considering their possible effect and the information presented above, the Group's management came to the conclusion that going concern assumption is still applicable in preparation of these consolidated financial statements.

Defining of related party and initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans and advances to customers.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 693 million or UAH 1,360 million (2015: increase or decrease in loan impairment losses of UAH 627 million or UAH 841 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 2,733 million or UAH 16,021 million (2014: increase or decrease in loan impairment losses of UAH 1,418 million or UAH 1,650 million), respectively.

During the year of 2016, the Group introduced a number of changes to its methodology for calculation of allowance for impairment on mortgage loans to individuals. In particular, for the calculation of loss given default as at 31 December 2016 the Group used a more conservative 3-years migration matrix instead of 10-years loan losses statistics used in previous periods. In addition, in prior years the Group was deducting collateral value to arrive at outstanding amount at risk and has changed this to include collateral indirectly in migration matrix statistics on calculating loss given default. In case no changes were applied by the Group to assess allowance for impairment on mortgage loans as at 31 December 2016 allowance for impairment amount would be lower by UAH 3,216 million .

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

The fair value of embedded derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel. To the extent practical, only observable data are used in models, but where this is not feasible, for example, estimates of historical volatility for exchange rates, a degree of judgment is required in establishing fair values. If the historical volatility would be higher by 10% or lower by 5%, the fair value of the embedded derivative assets and the respective consolidated statement of profit or loss and other comprehensive income amount would increase by UAH 456 million and decrease by UAH 209 million. Additional details are provided in Note 11.

Provision associated with Crimea liabilities. As described in Note 27 the Group has recognised a provision of UAH 1,299 million relating to cessation of its operations in Crimea. Provision was assessed based on the probable future negative outcome of the claims presented against the Group and unfavourable resolution of the disputes the Group is being party to.

Accounting for assets and liabilities associated with operations in the Donetsk and Lugansk regions. As at 31 December 2016, the Group had assets and liabilities in the areas of Donetsk and Lugansk regions which are not controlled by the Ukrainian government. Whilst management believes it is taking appropriate actions to reinstate the control over or recovery of its assets in Donetsk and Lugansk regions, violence and armed conflict negatively affect the Group's operations and financial position. The final outcome may differ from the management's assessment. Please refer to Note 10 for more details in relation to assets and liabilities associated with the operations in these areas.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

Valuation of own use premises, investment properties and repossessed collateral. Premises, investment properties and repossessed collateral of the Group are stated at fair value based on the reports prepared by a valuation company using sales comparison approach. When performing revaluation certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in sales comparison approach. Changes in assumptions about these factors could affect reported fair values. As at 31 December 2016, the Group had the valuation based on the comparative sales of premises with the price per square meter varying from UAH 1,423 to UAH 38,263 (2015:UAH 1,226 to UAH 36,837), depending upon the location and condition of premises. Should price per square metre be 10% higher or 10% lower, the fair value of premises would be UAH 189 million (2015: UAH 188 million) higher or lower respectively.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted.

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

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

The standard is expected to have a significant impact on the Group's allowance for loan impairment. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financial activities. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard is not expected to have any material impact on the Group's financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with the term of more than 12 months, unless the underlying asset is of low value, and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is not expected to have any material impact on the Group's financial statements.

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

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share - based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).

7 Disposal of Subsidiaries

In December 2016, the Group lost control in AS PrivatBank (Latvia) and classified the remaining investment of 46.54% as investment in an associate.

The details of the disposed assets and liabilities of the subsidiary were as follows :

In millions of Ukrainian hryvnias	December 2016
Cash and cash equivalents and mandatory reserves	3,372
Due from banks	45
Loans and advances to customers	2,066
Investment securities held to maturity	591
Premises, leasehold improvements, equipment and intangible assets	972
Other assets	893
Due to banks and financial institutions	(183)
Customer accounts	(5,516)
Subordinated debt	(572)
Other liabilities	(295)
Net assets of subsidiary	1,373
Goodwill	82
Less: non-controlling interest	(734)
Carrying amount of disposed net assets	721

7 Disposal of Subsidiaries (Continued)

The gain on disposal of the subsidiary comprised:

In millions of Ukrainian hryvnias	
Fair value of the investment retained	507
Carrying amount of disposed net assets	(721)
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	590
Revaluation reserve for available-for-sale financial assets recycled from other comprehensive income to profit or loss upon disposal	(5)
Liability to former subsidiary recognised at disposal	(195)
Gain on disposal of subsidiary	176

In 2016, the Group lost control in a subsidiary. The carrying value of assets and liabilities of the subsidiary were UAH 1,319 million and UAH 1,548 million respectively at the date when control was lost (31 December 2015: UAH 725 million and UAH 892 million respectively).

In January 2015, the Group disposed of 57.86 % of the share capital of CJS "PrivatBank" (Georgia). The subsidiary was previously classified as a disposal group and its assets and liabilities were accordingly reclassified in the statement of financial position. Gains from disposal of subsidiary amounted to UAH 227 million. The details of disposed assets and liabilities and disposal consideration are as follows:

In millions of Ukrainian hryvnias	January 2015
Cash and cash equivalents	1,119
Loans and advances to customers	2,510
Other assets	366
Customer accounts	(2,875)
Other liabilities	(398)
Net assets of subsidiary	722
Less: non-controlling interest	(305)
Carrying amount of disposed net assets	417
Total disposal consideration	390
Less: fair value of receivable arising on disposal	(134)
Less: cash and cash equivalents in disposed subsidiary	(1,119)
Cash outflow on disposal	(863)

The gain on disposal of the subsidiary recorded in January 2015 comprised of:

In millions of Ukrainian hryvnias	
Consideration for disposal of the subsidiary	390
Carrying amount of disposed net assets, net of non-controlling interest	(417)
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	254
Gain on disposal of subsidiary	227

8 Cash and Cash Equivalents and Mandatory Reserves

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Cash on hand	12,101	12,050
Cash balances with the Central Bank of Latvia	-	4,793
Cash balances with the NBU	5,644	3,766
Cash balances with the Central Bank of Cyprus	1,505	168
Correspondent accounts and overnight placements with banks		
- Ukraine	406	-
- OECD	10,483	13,910
- Non-OECD	20	922
Total cash and cash equivalents and mandatory reserves	30,159	35,609

In accordance with the NBU regulation, its Group should maintain its mandatory reserve balance at the level of 3 to 6.5 percent (31 December 2015: 3 to 6.5 percent) of its certain obligations.

As at 31 December 2016 and 2015, the Group was in compliance with the required level of mandatory reserve balance of UAH 7,518 million (31 December 2015: UAH 6,199 million). However, the Group did not comply with this requirement throughout the year 2016 as a number of daily exceptions exceeded the level allowed by the NBU. In 2016 and to the date of these financial statements the NBU did not apply any restrictions to the Group specific to this incompliance.

As at 31 December 2016, the mandatory reserve balances of the Group's branch in Cyprus kept with the Central Bank of Cyprus was UAH 65 million (31 December 2015: subsidiary bank in Latvia and branch in Cyprus; UAH 287 million). In addition, as at 31 December 2016 cash balances with the Central Bank of Cyprus of UAH 1,421 million were restricted in similar manner as a mandatory reserve balances and were not available for operating activities.

As the respective liquid assets are not freely available to finance the day-to-day operations of the Group, for the purposes of the consolidated statement of cash flow, UAH 1,486 million of such balances were excluded from cash and cash equivalents (31 December 2015: UAH 287 million).

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Total cash and cash equivalents and mandatory reserves	30,159	35,609
Less mandatory reserves and other restricted balances	(1,486)	(287)
Cash and cash equivalents for the purposes of the consolidated statement of cash flows	28,673	35,322

As at 31 December 2016, UAH 1,294 million of mandatory reserve balances with the NBU (31 December 2015: UAH 1,294 million) has been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 15 and 27.

8 Cash and Cash Equivalents and Mandatory Reserves (Continued)

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings at 31 December 2016 as follows:

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the central banks, including mandatory reserves	Correspondent accounts and overnight placements with banks	Total
Neither past due nor impaired				
Cash on hand	12,101	-	-	12,101
Cash balances with the Central Banks	-	7,149	-	7,149
Aa1 to Aa3 rated	-	-	9,523	9,523
A1 to A3 rated	-	-	732	732
Baa1 to Baa3 rated	-	-	52	52
B3 rated	-	-	19	19
Ca rated	-	-	364	364
Unrated	-	-	219	219
Total cash and cash equivalents and mandatory reserves	12,101	7,149	10,909	30,159

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

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the central banks, including mandatory reserves	Correspondent accounts and overnight placements with banks	Total
Neither past due nor impaired				
Cash on hand	12,050	-	-	12,050
Cash balances with the Central Banks	-	8,727	-	8,727
Aa1 to Aa3 rated	-	-	2,731	2,731
A1 to A3 rated	-	-	6,994	6,994
Baa1 to Baa3 rated	-	-	4,615	4,615
Ba1 to Ba3 rated	-	-	154	154
B1 to B3 rated	-	-	113	113
Unrated	-	-	225	225
Total cash and cash equivalents and mandatory reserves	12,050	8,727	14,832	35,609

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 25.

9 Due from Banks

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Guarantee deposits with banks	2,410	3,429
Placements with banks	-	260
Total due from banks	2,410	3,689

Refer to Note 27 for the information on pledged due from banks balances.

9 Due from Banks (Continued)

Analysis by credit quality of amounts due from other Banks outstanding at 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Guarantee deposits with banks	Total
Neither past due nor impaired		
- A1 to A3 rated	2,400	2,400
- Unrated	10	10
Total due from banks	2,410	2,410

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

In millions of Ukrainian hryvnias	Placements with banks	Guarantee deposits with banks	Total
Neither past due nor impaired			
- Aa2 to Aa3 rated	228	399	627
- A2 to A3 rated	-	1,111	1,111
- Baa1 to Baa2 rated	-	1,919	1,919
- B1 to B3 rated	24	-	24
- Ca rated	8	-	8
Total due from banks	260	3,429	3,689

The credit ratings are based on Moody’s ratings where available, or other rating agencies converted to the nearest equivalent on Moody’s rating scale. The primary factor that the Group considers in determining whether a balance is impaired is its overdue status.

Refer to Note 28 for the estimated fair value of each class of amounts due from banks. Geographical, maturity and interest rate analysis of due from banks is disclosed in Note 25.

10 Loans and Advances to Customers

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Corporate loans	178,427	188,764
Loans to individuals – cards	19,878	20,397
Loans to individuals – mortgage	9,048	9,363
Loans to individuals – auto	264	503
Loans to individuals – consumer	1,069	613
Loans to individuals – other	1,283	1,648
Loans to small and medium enterprises (SME)	2,494	2,252
Finance lease receivables – corporate customers	15,296	329
Finance lease receivables – individuals	164	264
Total loans and advances to customers, gross	227,923	224,133
Less: Allowance for loan impairment	(184,341)	(28,794)
Total loans and advances to customers	43,582	195,339

During 2016, the Group repossessed collateral under defaulted loan agreements with a carrying value of UAH 21,836 million as at 31 December 2016. Refer to Note 14.

In October - November 2016, the Group restructured a part of its loan portfolio with a total value of UAH 137,082 million before allowance for impairment as at 31 December 2016. During the restructuring, the Group changed loans currency to UAH, lowered interest rates, extended maturity of loans to 2024 and 2025, converted some of loans into finance lease and changed collateral pledged under loans. As at 31 December 2016, the Group recognised UAH 135,018 million of allowance for impairment under these loans.

10 Loans and Advances to Customers (Continued)

As at 31 December 2016, interest income of UAH 5,806 million (31 December 2015: UAH 8,404 million) was accrued on impaired loans and advances to customers.

The movements in allowances for impairment of loans and advances during 2016 are as follows:

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Finance lease receivables	Total
Allowance for loan impairment at 1 January 2016	20,849	2,861	3,161	227	71	636	917	72	28,794
Provision for impairment during the period	147,945	881	3,701	(19)	31	280	524	1,193	154,536
Amounts written off during the period as uncollectible	(764)	(32)	(140)	(4)	-	-	(9)	-	(949)
Recoveries of amounts previously written-off as uncollectible	210	340	36	25	15	8	94	-	728
Currency translation differences	1,001	(1)	396	23	(1)	8	66	-	1,492
Disposal of subsidiaries	(133)	(1)	(117)	(1)	(8)	-	-	-	(260)
Allowance for loan impairment at 31 December 2016	169,108	4,048	7,037	251	108	932	1,592	1,265	184,341

The movements in allowances for impairment of loans and advances during 2015 are as follows:

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Finance lease receivables	Total
Allowance for loan impairment at 1 January 2015	16,303	2,735	1,707	106	71	157	621	105	21,805
Provision for impairment during the period	2,602	36	629	21	7	436	91	(33)	3,789
Amounts written off during the period as uncollectible	(820)	(14)	(78)	(2)	(7)	(21)	(12)	-	(954)
Recoveries of amounts previously written-off as uncollectible	783	103	188	68	-	57	122	-	1,321
Currency translation differences	1,981	1	715	34	-	7	95	-	2,833
Allowance for loan impairment at 31 December 2015	20,849	2,861	3,161	227	71	636	917	72	28,794

10 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	31 December 2016 Amount	%	31 December 2015 Amount	%
Oil trading	93,233	41	40,645	18
Loans to individuals	31,706	14	32,788	15
Ferroalloy trading and production	29,700	13	32,527	15
Agriculture, agriculture machinery and food industry	18,521	8	29,522	13
Manufacturing and chemicals	18,240	8	27,953	12
Commerce, finance and securities trading	22,100	10	21,596	10
Air transportation	4,491	2	14,136	6
Ski resort, tourism and football clubs	389	-	8,340	4
Real estate construction	4,581	2	7,919	3
Small and medium enterprises (SME)	2,494	1	2,252	1
Other	2,468	1	6,455	3
Total loans and advances to customers, gross	227,923	100	224,133	100

Economic and business sector risk concentration within the customer loan portfolio for borrowers engaged in several activities is determined by the main activity of borrowers.

As at 31 December 2016, the gross aggregate amount of loans to top 10 borrowers of the Group amounted to UAH 53,193 million (31 December 2015: UAH 54,562 million) or 23% of the gross loan portfolio (31 December 2015: 24%). Allowance for loan impairment relating to these borrowers was UAH 52,975 million (31 December 2015: UAH 4,850 million).

As at 31 December 2016, card loans issued to individuals with a gross value of UAH 15,678 million were pledged as a collateral under the NBU refinancing loans (31 December 2015: loans issued to ninety one corporate borrowers with a gross value of UAH 43,725 million). Please refer to Notes 15 and 27.

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2016 are as follows:

In millions of Ukrainian hryvnias	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivables as at 31 December 2016	2,766	12,199	8,017	22,982
Unearned finance income	(1,644)	(4,501)	(1,377)	(7,522)
Present value of lease payments receivables as at 31 December 2016	1,122	7,698	6,640	15,460
Allowance for impairment	(159)	(597)	(509)	(1,265)
Total finance lease receivables	963	7,101	6,131	14,195

10 Loans and Advances to Customers (Continued)

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2015 are as follows:

In millions of Ukrainian hryvnias	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivables as at 31 December 2015	344	473	3	820
Unearned finance income	(80)	(146)	(1)	(227)
Present value of lease payments receivables as at 31 December 2015	264	327	2	593
Allowance for impairment	(37)	(35)	-	(72)
Total finance lease receivables	227	292	2	521

10 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Loans to individuals: Mortgage	Loans to individuals: Auto	Loans to individuals: Con-sumer	Loans to individuals: Other	SME	Finance lease recei-vables	Total
Neither past due nor impaired									
- Large borrowers with credit history with the Group over 2 years	391	116	-	-	-	-	-	-	507
- Large new borrowers with credit history with the Group less than 2 years	-	-	-	-	-	-	-	-	-
- Loans to medium size borrowers	1,082	-	-	-	-	25	144	201	1,452
- Loans to small borrowers	300	-	-	-	-	-	503	46	849
- Loans between UAH 1-100 million	-	15	289	-	-	-	-	1	305
- Loans less than UAH 1 million	-	14,875	661	11	951	374	-	90	16,962
Total neither past due nor impaired (gross)	1,773	15,006	950	11	951	399	647	338	20,075
Past due but not impaired									
- less than 30 days overdue	57	632	97	1	10	24	39	45	905
- 31 to 90 days overdue	51	277	56	-	3	23	17	18	445
Total past due but not impaired (gross)	108	909	153	1	13	47	56	63	1,350
Loans individually determined to be impaired (gross)									
- Not overdue	161,960	-	-	-	-	16	-	14,985	176,961
- less than 30 days overdue	4,937	-	-	-	-	-	-	1	4,938
- 31 to 90 days overdue	5,317	-	-	-	-	-	-	-	5,317
- 91 to 180 days overdue	650	202	71	-	1	36	24	5	989
- 181 to 360 days overdue	343	276	147	1	2	67	53	3	892
- over 361 days overdue	3,339	3,485	7,727	251	102	718	1,714	65	17,401
Total individually impaired loans (gross)	176,546	3,963	7,945	252	105	837	1,791	15,059	206,498
Allowance for impairment	(169,108)	(4,048)	(7,037)	(251)	(108)	(932)	(1,592)	(1,265)	(184,341)
Total loans and advances to customers	9,319	15,830	2,011	13	961	351	902	14,195	43,582

10 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Finance lease recei-vables	Total
Neither past due nor impaired									
- Large borrowers with credit history with the Group over 2 years	72,333	155	-	-	-	602	-	2	73,092
- Large new borrowers with credit history with the Group less than 2 years	26,322	-	-	-	-	-	-	-	26,322
- Loans to medium size borrowers	6,905	-	-	-	-	33	89	154	7,181
- Loans to small borrowers	523	-	-	-	-	-	464	47	1,034
- Loans between UAH 1-100 million	-	24	271	-	-	-	-	3	298
- Loans less than UAH 1 million	-	17,610	1,089	231	531	447	-	188	20,096
Total neither past due nor impaired (gross)	106,083	17,789	1,360	231	531	1,082	553	394	128,023
Past due but not impaired									
- less than 30 days overdue	203	547	151	17	7	35	34	43	1,037
- 31 to 90 days overdue	2,438	206	78	4	3	23	166	10	2,928
- over 91 days overdue	1,708	-	15	1	-	-	-	-	1,724
Total past due but not impaired (gross)	4,349	753	244	22	10	58	200	53	5,689
Loans individually determined to be impaired (gross)									
- Not overdue	64,091	-	14	-	-	13	1	75	64,194
- less than 30 days overdue	285	-	12	-	-	-	-	-	297
- 31 to 90 days overdue	171	-	37	4	-	-	-	-	212
- 91 to 180 days overdue	4,830	178	90	3	3	48	29	11	5,192
- 181 to 360 days overdue	4,804	391	421	9	8	109	72	5	5,819
- over 361 days overdue	4,151	1,286	7,185	234	61	338	1,397	55	14,707
Total individually impaired loans (gross)	78,332	1,855	7,759	250	72	508	1,499	146	90,421
Allowance for impairment	(20,849)	(2,861)	(3,161)	(227)	(71)	(636)	(917)	(72)	(28,794)
Total loans and advances to customers	167,915	17,536	6,202	276	542	1,012	1,335	521	195,339

The Group applied the portfolio assessment methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement,* and created portfolio allowance for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and decrease in the fair value of related collateral and its realisability.

10 Loans and Advances to Customers (Continued)

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

Management considers that loans and advances to large and small size borrowers with longer credit history are of a higher credit quality than the rest of the loan portfolio.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying cars. Loans to small and medium enterprises are secured by underlying commercial real estate, equipment or commercial cars. Finance lease receivables due from individuals and from corporate customers are secured by cars and real estate. The tables below exclude card loans, consumer and part of loans to small and medium enterprises in amount of UAH 552 million (31 December 2015: UAH 530 million), issue of which did not require any collateral.

The effect of collateral at 31 December 2016:

	Over-collateralised assets		Under-collateralised assets	
In millions of Ukrainian hryvnias	Carrying value of the assets	Expected cash flows from collateral realisation	Carrying value of the assets	Expected cash flows from collateral realisation
Corporate loans	6,234	9,072	3,085	55
Loans to individuals – mortgage	1,461	6,673	550	220
Loans to individuals – auto	-	2	13	-
Loans to individuals – other	41	224	310	15
Loans to SME	87	340	263	62
Finance lease receivables	10,601	11,907	3,594	2,713

The effect of collateral at 31 December 2015:

	Over-collateralised assets		Under-collateralised assets	
In millions of Ukrainian hryvnias	Carrying value of the assets	Expected cash flows from collateral realisation	Carrying value of the assets	Expected cash flows from collateral realisation
Corporate loans	150,083	189,027	17,832	12,931
Loans to individuals – mortgage	2,337	6,092	3,865	2,520
Loans to individuals – auto	239	378	38	3
Loans to individuals – other	673	1,566	339	27
Loans to SME	78	291	727	210
Finance lease receivables	502	916	19	11

Upon initial recognition of loans and advances to customers, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets, market prices, indexes of similar assets.

Included in loans and advances to customers are loans issued by the Group to the customers in Donetsk and Lugansk regions.

From July 2014, the National Bank of Ukraine introduced the emergency regime of operation for the Grouping system in Donetsk, Lugansk regions and the Autonomous Republic of Crimea. In November 2014, President of Ukraine ordered suspension of public services, budget financing and all banking operations in eastern regions not controlled by the Ukrainian government. As a result of the tensions around Lugansk and Donetsk, the Group had to close all of its branches in the area not controlled by the Ukrainian government. The Group also developed a program of credit holidays for citizens in this region providing special conditions for the repayment of interest and principal, waiving all sanctions for overdue payment of loans until finalisation of anti-terrorist operation. In addition the Group decreased loan limits to clients located in Donetsk and Lugansk regions, not controlled by the Ukrainian government. Currently the final outcome of the future of these regions is difficult to determine.

10 Loans and Advances to Customers (Continued)

The following table represents loans issued to the borrowers, operating in the Donetsk and Lugansk regions, not controlled by the Ukrainian government:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Loans to individuals – cards	2,117	2,229
Loans to individuals – mortgage	289	215
Loans to individuals – consumer	46	26
Loans to individuals – auto	24	22
Loans to individuals – other	6	7
Loans to SME	176	175
Finance lease receivables – individuals	51	52
Total loans and advances to customers, gross	2,709	2,726
Less: Allowance for loan impairment	(2,591)	(1,596)
Total	118	1,130

As at 31 December 2015, the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 30,673 million. This embedded derivatives were represented by a currency option maturing in up to 3 years.

Further information on fair value and movements of embedded derivatives related to borrowers is disclosed in Note 28.

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

11 Investment securities available-for-sale

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Long-term government debt securities with an embedded option	47,046	-
Long-term government debt securities without an embedded option	17,363	-
Unquoted shares	-	1,883
Government bonds	-	177
Total investment securities available for sale	64,409	2,060

In December 2016, the Group received government bonds with a nominal value of UAH 107,000 million as a contribution to the Group's share capital, including government bonds with embedded option in amount of UAH 64,000 million and government bonds without embedded option in amount of UAH 43,000 million.

As at 31 December 2016, the carrying value of government bonds without embedded option was UAH 17,363 million. They earn a coupon interest rate of 9.5% and mature in March 2030–November 2031.

As at 31 December 2016, the carrying value of government bonds with embedded option was UAH 47,046 million. The bonds earn a coupon interest rate of 6.0% and mature in September 2028–October 2031. The nominal value (principle) of these government bonds is indexed to an increase in exchange rate of UAH to USD between weighted average monthly exchange rate at the intergroup market for a month prior the issue and a month before the maturity date. Coupon is not subject to indexation.

At the date of initial recognition, the difference between the nominal and fair values of the government bonds with an embedded option and related derivative was recognized in equity within result of transactions with the owner in the amount of UAH 9,934 million, including a gain on recognition of embedded derivative of UAH 27,296 million and a loss on recognition of related host contract (available for sale securities) of UAH 17,362 million. The embedded derivative was accounted separately from the host contract.

As at 31 December 2016, accrued interest income of UAH 19 million was included in investments available-for-sale.

12 Premises, leasehold improvements, equipment and intangible assets

In millions of Ukrainian hryvnias	Note	Premises	Leasehold improve-ments	Compu-ters	Motor vehicles	Furniture, equipment, intangible assets and other	Total
Carrying amount at 1 January 2015		2,116	23	1,285	95	579	4,098
Cost or valuation at 1 January 2015		2,213	104	2,536	162	1,249	6,264
Accumulated depreciation and amortisation at 1 January 2015		(97)	(81)	(1,251)	(67)	(670)	(2,166)
Additions		216	66	156	622	96	1,156
Disposals		(39)	-	(16)	(26)	(1)	(82)
Depreciation and amortisation charge		(56)	(11)	(383)	(38)	(169)	(657)
Impairment charge to profit or loss		(1)	-	(8)	-	(10)	(19)
Effect of translation to presentation currency		58	1	9	50	37	155
Carrying amount at 31 December 2015		2,294	79	1,043	703	532	4,651
Cost or valuation at 31 December 2015		2,441	156	2,614	806	1,324	7,341
Accumulated depreciation and amortisation at 31 December 2015		(147)	(77)	(1,571)	(103)	(792)	(2,690)
Additions		577	17	322	12	567	1,495
Disposals		(15)	(19)	(23)	(4)	(62)	(123)
Depreciation and amortisation charge	22	(98)	(39)	(317)	(47)	(111)	(612)
Revaluation		351	-	-	-	-	351
Impairment charge to profit or loss		(19)	-	(8)	(1)	(4)	(32)
Effect of translation to presentation currency		17	-	2	-	(30)	(11)
Disposal of subsidiaries		(928)	(1)	(25)	(665)	(36)	(1,655)
Reclassification to investment properties		(45)	-	-	-	-	(45)
Carrying amount at 31 December 2016		2,134	37	994	(2)	856	4,019
Cost or valuation at 31 December 2016		2,373	138	2,819	146	1,712	7,188
Accumulated depreciation and amortisation at 31 December 2016		(239)	(101)	(1,825)	(148)	(856)	(3,169)
Carrying amount at 31 December 2016		2,134	37	994	(2)	856	4,019

As at 31 December 2016, furniture, equipment, intangible assets and other included UAH 368 million of intangible assets, including UAH 340 million of internally generated intangible assets related to software development (2015: UAH 18 million, including no internally generated intangible assets related to software development).

Premises have been revalued at fair value at 1 November 2016. The valuation was carried out by an external valuation company who holds a suitable professional qualification and who has recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices.

As at 31 December 2016 premises carried at UAH 2,134 million (31 December 2015: UAH 2,294 million) included UAH 1,374 million of revaluation surplus (31 December 2015: UAH 1,081 million).

As at 31 December 2016, a cumulative deferred tax liability of UAH 247 million (31 December 2015: UAH 193 million) was calculated with respect to this valuation adjustment and has been recorded in other comprehensive income. At 31 December 2016 the carrying amount of premises would have been UAH 1,050 million (31 December 2015: UAH 1,535 million) had the assets been carried at cost less depreciation.

12 Premises, leasehold improvements, equipment and intangible assets (Continued)

As at 31 December 2016, the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 251 million (31 December 2015: UAH 257 million).

As at 31 December 2016, premises carried at UAH 1,202 million (31 December 2015: UAH 1,058 million) have been pledged as collateral under the refinancing loans received from the NBU. Refer to Note 15 and 27.

13 Other assets

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Receivables on conversion of liabilities to equity	8878	-
Inventory	239	1,029
Prepayments for services	2	20
Prepaid taxes other than income tax	8	18
Precious metals	1	1
Other	457	170
Total other assets	9585	1,238

Receivables originated on conversion of liabilities to equity of UAH 8,878 million were recorded by the Group at the nationalisation and following the changes in the charter. Management of the Group expects to recover this amount in full.

14 Repossessed collateral

In 2016 the Group took possession of various real estate properties as a settlement of past due loans to customers with a total carrying value of UAH 21,836 million as at 31 December 2016. The Group expects to dispose of these assets in an orderly fashion. The assets were initially recognised at fair value when repossessed.

15 Due to the NBU

Balances due to the NBU are as follows:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Term borrowings from the NBU	18,047	27,079
Total due to the NBU	18,047	27,079

As at 31 December 2016 term borrowings from the NBU bore interest rate from 14.25% to 29.25% per annum (2015: from 14.25% to 31.5% per annum).

The contractual maturity of the NBU refinancing loan tranches outstanding as at 31 December 2016 varied from May 2016 to August 2017 (31 December 2015: varied from January 2016 to April 2017). Included in the total amount due to the NBU was the past due amount of UAH 13,469 million (31 December 2015: UAH 16,720 million).

In April 2016, NBU refinancing loan tranches with carrying value of UAH 4,249 million as at 31 December 2016 were rescheduled from their original maturity in February and March 2015 to August 2017.

15 Due to the NBU (Continued)

Assets pledged under the NBU refinancing loans are as follows:

In millions of Ukrainian hryvnias	Note	31 December 2016	31 December 2015
Mandatory reserve balance with the NBU	8	1,294	1,294
Loans and advances to customers	10	15,678	43,725
Premises	12	1,203	1,058
Investment properties		1,189	-
Repossessed collateral	14	15,294	-
Total		34,658	46,077

Refer to Note 28 for the disclosure of the fair value of amounts due to the NBU. Geographical, maturity and interest rate analysis is disclosed in Note 25.

On 19 December and 22 December 2016 the Group received short-term loans from the NBU of UAH 15,000 million and UAH 10,000 million respectively at contractual rate of 16% per annum maturing on 30 December 2016. As at 31 December 2016 the Group repaid these short-term loans from the NBU.

In 2015, the Group received UAH 9,700 million of refinancing loans from the National Bank of Ukraine.

16 Due to Banks and Financial Institutions

Balances due to banks and financial institutions are as follows:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Term loans under the credit lines from financial institutions	2,040	1,654
Term placements of commercial banks	565	2,258
Correspondent accounts and overnight placements of banks	61	560
Pledge deposits of banks	1	4
Total due to banks and financial institutions	2,667	4,476

Term placements of commercial banks represent placements in USD and EUR with maturities from January 2017 to September 2021 (31 December 2015: placements of commercial banks in USD and EUR with maturities from January 2016 to July 2020).

Refer to Note 28 for the disclosure of the fair value of each class of amounts due to banks and other financial institutions. Geographical, maturity and interest rate analysis is disclosed in Note 25.

17 Customer Accounts

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Individuals		
- Term deposits	119,519	111,773
- Current/demand accounts	31,684	32,418
Legal entities		
- Term deposits	14,675	17,105
- Current/settlement accounts	15,250	30,614
Total customer accounts	181,128	191,910

17 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2016		31 December 2015	
In millions of Ukrainian hryvnias	Amount	%	Amount	%
Individuals	151,203	84	144,191	75
Trade	9,133	5	16,547	9
Services	6,620	4	7,434	4
Transport and communication	2,471	1	2,185	1
Manufacturing	2,203	1	7,050	4
Agriculture	1,612	1	1,790	1
Machinery	308	-	651	-
Other	7,578	4	12,062	6
Total customer accounts	181,128	100	191,910	100

At 31 December 2016 the aggregate balances of top 10 customers of the Group was UAH 9,770 million (31 December 2015: UAH 12,708 million) or 5% (31 December 2015: 7%) of total customer accounts.

At 31 December 2016 included in customer accounts were deposits of UAH 3,864 million (31 December 2015: UAH 1,410 million) held as collateral for loans and advances to customers with cash covered exposure of UAH 3,864 million (31 December 2015: UAH 1,410 million), issued by the Group.

Fair value of each class of customer accounts is disclosed in Note 28. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

18 Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities

Provisions for liabilities and charges, other financial and non-financial liabilities comprise the following:

In millions of Ukrainian hryvnias	Note	31 December 2016	31 December 2015
Other financial liabilities			
Payables for contributions to Individual Deposits Guarantee Fund		386	316
Deferred fees received		380	-
Provision for credit related commitments		247	56
Accounts payable		83	421
Funds in the course of settlement		67	54
Other		681	160
Total other financial liabilities		1,844	1,007
Provision for liabilities and charges and other non-financial liabilities			
Provision associated with cessation of operations in Crimea		1,299	700
Provision for taxes other than income tax		251	250
Taxes other than on income		262	335
Unused vacation accrual		204	186
Accrued salaries and bonuses		102	91
Provision for legal cases		36	21
Other		12	211
Total provisions for liabilities and charges and other non-financial liabilities		2,166	1,794
Total provisions for liabilities and charges, other financial and non-financial liabilities		4,010	2,801

18 Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities (Continued)

Information on provision recognised by the Group with respect to cessation of its operations in Republic of Crimea is disclosed in Note 4.

Refer to Note 28 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 25. Information on related party balances is disclosed in Note 30.

19 Share Capital and Other Reserve Funds

In millions of UAH except for number of shares	Number of outstanding shares, in millions	Nominal amount
As at 1 January 2015	64.64	18,101
New shares issued	11.28	3,156
As at 31 December 2015	75.92	21,257
New shares issued	105.13	29,438
As at 31 December 2016	181.05	50,695

The nominal registered amount of the Bank's issued share capital at 31 December 2016 was UAH 50,695 million (31 December 2015: UAH 21,257 million). The total authorised number of ordinary shares was 181.05 million shares (31 December 2015: 75.92 million shares) with a par value of UAH 280 per share (31 December 2015: UAH 280 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

As described in Note 1, at the nationalisation of the Bank, the DGF converted UAH 29,438 of liabilities to the Bank's share capital, including UAH 10,934 million of amounts due to customers, UAH 10,721 million of Eurobonds issued and UAH 7,783 million of subordinated debt, and approved changes to the charter of the Bank increasing share capital of the Bank to UAH 50,695 million or 181.05 million of shares.

On 18 December 2016, the Cabinet of Ministers of Ukraine adopted a decision on the additional issue of the Bank's 417 million shares with par value of UAH 280 per share and total nominal value of UAH 116,800 million financed by government bonds.

On 29 December 2016, the Bank received a contribution of UAH 107,000 million to the share capital financed by government bonds. On that date, UAH 9,934 million of net gain on initial recognition of these bonds was recognised by in equity, under result on transactions with the owner. Refer to Note 11.

Subsequently to the reporting date, in February 2017, the Bank received a remaining contribution to the share capital financed by government bonds with a nominal value of UAH 9,800 million.

In June 2015 the Bank received USD denominated subordinated debt of UAH 1,694 million (USD 80 million at the exchange rate at the date of receipt) bearing 11% per annum with contractual maturity in June 2020. On 2 June 2016, this subordinated debt of UAH 2,008 was transferred to equity following a consent of the creditor and an approval of the National Bank of Ukraine for early repayment of subordinated debt subject to further contribution of the same amount to the equity.

In August 2016, former Shareholders of the Bank approved decisions to transfer UAH 2,583 million from retained to the share capital. This transfer was not registered as at 31 December 2016. Subsequent to the reporting date, on 14 April 2017, the Ministry of Financial of Ukraine as a sole shareholder of the Bank cancelled this decision.

General reserves and other funds are established in accordance with the requirements of the Ukrainian legislation, amounted to UAH 1,619 million as at 31 December 2016 (2015: UAH 1,448 million). The Bank is required to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year is calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders of not less than 5% of current period profit until reserve capital will reach 25% of regulatory capital of the Bank.

19 Share Capital and Other Reserve Funds (Continued)

During the reporting period, no financial instruments with a dilutive effect were outstanding. Therefore, basic earnings per share equal diluted earnings per share. Earnings per share amounts are calculated by dividing profit for the period attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the year.

In millions of UAH except for number of shares	2016	2015
(Loss)/profit for the period attributable to owners of the Bank	(176,462)	326
Weighted average number of ordinary shares in issue, in millions	79.00	70.57
Earnings per share, basic and diluted (expressed in UAH per share)	(2,233.70)	4.62

20 Interest Income and Expense

In millions of Ukrainian hryvnias	2016	2015
Interest income		
Loans and advances to legal entities	21,271	19,082
Loans and advances to individuals	10,517	11,452
Finance lease receivables	929	189
Investment securities available-for-sale	51	-
Due from banks	16	186
Other	673	245
Total interest income	33,457	31,154
Interest expense		
Term deposits of individuals	16,110	15,772
Due to the NBU	5,253	5,789
Term deposits of legal entities	2,987	2,363
Current/settlement accounts	2,434	1,897
Debt securities in issue	923	1,801
Subordinated debt	1,138	702
Due to banks and financial institutions	609	532
Other	20	1
Total interest expense	29,474	28,857
Net interest income	3,983	2,297

Information on interest income and expense from transactions with related parties is disclosed in Note 30.

21 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	2016	2015
Fee and commission income		
Settlement transactions	6,732	4,422
Cash collection and cash transactions	3,494	2,184
Other	466	392
Total fee and commission income	10,692	6,998
Fee and commission expense		
Cash and settlement transactions	2,292	1,698
Other	6	5
Total fee and commission expense	2,298	1,703
Net fee and commission income	8,394	5,295

Information on fee and commission income from transactions with related parties is disclosed in Note 30.

22 Administrative and Other Operating Expenses

In millions of Ukrainian hryvnias	Note	2016	2015
Staff costs		3,650	3,444
Contributions to Deposits Guarantee Fund		1,481	1,199
Insurance expenses	4	676	250
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets		612	657
Provision associated with Crimean liabilities		599	-
Mail and telecommunication		553	555
Rent		492	460
Maintenance of premises, leasehold improvements and equipment		467	408
Utilities and household expenses		420	372
Taxes other than on income		342	257
Provision for other financial assets and other assets		219	260
Security		143	151
Professional services		360	118
Transportation		116	110
Advertising and marketing		92	103
Other		552	721
Total administrative and other operating expenses		10,774	9,065

Included in staff costs was unified social contribution of UAH 640 million (2014: UAH 833 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Insurance costs associated mainly with insurance collateral provided by the Group received credit security.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 30.

23 Income Taxes

Income tax expense recorded in the profit or loss comprises the following:

In millions of Ukrainian hryvnias	2016	2015
Current tax	91	105
Deferred tax	(667)	92
Income tax (credit)/expense for the year	(576)	197

In 2016 the income tax rate applicable to the majority of the Group's income was 18% (2015: 18%). Reconciliation between the theoretical and the actual taxation charge is provided below.

In millions of Ukrainian hryvnias	2016	2015
(Loss)/Profit before tax	(177,220)	472
Theoretical tax (credit)/expense at statutory rate (2016: 18%; 2015: 18%)	(31,901)	86
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	5,198	-
- Non-deductible expenses	500	111
-Unrecognised deferred tax assets	25,627	-
Income tax (credit)/expense for the year	(576)	197

23 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

In millions of Ukrainian hryvnias	31 December 2015	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	31 December 2016
Tax effect of deductible temporary differences				
Provision and impairments	150	23,056	-	23,206
Tax loss carried forward	-	2,421	-	2,421
Gross deferred tax asset	150	25,559	-	25,627
Less unrecognised deferred tax assets	-	(25,627)	-	(25,627)
Recognised deferred tax asset	150	(150)	-	-
Tax effect of taxable temporary differences				
Accrued impairment on other financial assets and other financial liabilities	(16)	16	-	-
Subordinated debt	(34)	32	-	(2)
Investment securities available-for-sale	(316)	4	312	-
Accrued income	(38)	38	-	-
Embedded derivative assets	(625)	625	-	-
Premises, leasehold improvements and equipment	(133)	102	(62)	(93)
Net deferred tax liability	(1,012)	667	250	(95)

23 Income Taxes (Continued)

In millions of Ukrainian hryvnias	31 December 2014	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	31 December 2015
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	96	(17)	-	79
Gross deferred tax asset	96	(17)	-	79
Less unrecognised deferred tax asset	-	-	-	-
Recognised deferred tax asset	96	(17)	-	79
Tax effect of taxable temporary differences				
Accrued impairment on other financial assets and other financial liabilities	-	(16)	-	(16)
Prepaid expenses and other assets	(37)	37	-	-
Subordinated debt	(37)	3	-	(34)
Investment securities available-for-sale	(176)	(4)	(136)	(316)
Accrued income	517	(555)	-	(38)
Accrued expenses of embedded derivative liabilities	1,808	(1,808)	-	-
Loans and advances, allowance for impairment	900	(829)	-	71
Embedded derivative assets	(3,656)	3,031	-	(625)
Premises, leasehold improvements and equipment	(192)	59	-	(133)
Net deferred tax liability	(784)	(92)	(136)	(1,012)

In the context of the Group's current structure and Ukrainian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

24 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by Management Board of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, derivative products.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

24 Segment Analysis (Continued)

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding taxation and head office overheads. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

(b) Factors that management used to identify the reportable segments

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

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries and head office functional departments. Regular review of these subsidiary Groups is delegated to the local management teams. The CODM obtains financial statements of the Group's subsidiaries. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries. Head office functional departments do not earn revenues or earn revenues that are only incidental to the activities of the Group and is not considered by the CODM as an operating segment.

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

Starting from 2016, the CODM reviews segment information of the Group prepared based on IFRS before consolidation of subsidiaries. Funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances. For each business segment the CODM reviews interest income adjusted for intersegment result (net interest on transactions with other segments). Income taxes are not allocated to segments.

In 2015 and prior years, the CODM reviewed segment information prepared based on internal accounting rules adjusted to meet the requirements of the NBU. Accordingly, a reconciliation other than consolidation adjustments to the Group's IFRS financial statements was required.

24 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended and at 31 December 2016 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
Cash and cash equivalents and mandatory reserves	12,101	10,909	-	7,149	30,159
Due from banks	-	-	-	2,410	2,410
Loans and advances to customers	19,700	23,608	-	275	43,583
Embedded derivative assets	-	-	27,044	-	27,044
Investment securities available-for-sale	-	-	64,409	-	64,409
Current income tax prepayment	125	26	1	29	181
Investments in subsidiaries and associates	-	-	433	-	433
Investment properties	-	1,358	-	-	1,358
Premises, leasehold improvements, equipment and intangible assets	2,734	571	16	635	3,956
Other financial assets	168	-	5	56	229
Other assets	1,154	8,262	3	166	9,585
Repossessed collateral	-	21,836	-	-	21,836
Total reportable segment assets	35,982	66,570	91,911	10,720	205,183
Due to the NBU	-	-	-	18,047	18,047
Due to banks and financial institutions	-	-	-	2,667	2,667
Customer accounts	151,203	29,930	-	-	181,133
Debt securities in issue and other borrowed funds	-	-	-	2	2
Deferred income tax liability	11	-	-	83	94
Provisions for liabilities and charges, other financial and non-financial liabilities	2,933	477	3	587	4,000
Subordinated debt	-	122	-	-	122
Total reportable segment liabilities	154,147	30,529	3	21,386	206,065

24 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
2016					
Total revenues comprise:					
- Interest income	10,920	22,169	51	115	33,255
- Fee and commission income	5,660	3,030	22	1,653	10,365
- Other operating income	201	1,225	12	36	1,474
Revenues from/(expenses on) other segments	18,972	(28,374)	96	9,306	-
Total revenues	35,753	(1,950)	181	11,110	45,094
Interest expense	(17,206)	(4,524)	(94)	(7,540)	(29,364)
Provision for impairment of loans and advances to customers	(5,622)	(148,995)	-	-	(154,617)
Fee and commission expense	(1,656)	(342)	-	(207)	(2,205)
(Losses less gains)/gains less losses from embedded derivatives	-	(23,696)	(259)	-	(23,955)
Losses less gains from trading in foreign currencies	330	899	-	(1,435)	(206)
Foreign exchange translation (losses less gains)/gains less losses	(10,097)	6,673	(70)	(772)	(4,266)
Gain from disposal or discontinuance of investments in subsidiaries	-	-	-	630	630
Gains from investment securities available-for-sale	-	-	1,981	-	1,981
Administrative and other operating expenses	1,940	(9,927)	(28)	(1,891)	(9,906)
Segment result	3,442	(181,862)	1,711	(105)	(176,814)

Segment information for the reportable segments for the year ended and at 31 December 2015 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
Cash and cash equivalents and mandatory reserves	12,007	-	-	19,796	31,803
Due from banks	-	-	-	1,507	1,507
Loans and advances to customers	24,979	152,955	-	-	177,934
Investment securities available-for-sale	-	-	1,734	-	1,734
Investment securities held to maturity	-	-	-	216	216
Investment property	-	-	14	-	14
Investment in subsidiaries	-	-	435	-	435
Intangible assets	3	4	-	3	10
Premises, leasehold improvements and equipment	1,265	402	7	316	1,990
Other financial assets	58	27,304	3	14,933	42,298
Other assets	20	12	45	239	316
Total reportable segment assets	38,332	180,677	2,238	37,010	258,257
Due to the NBU	-	-	-	27,079	27,079
Due to banks and financial institutions	157	-	-	11,984	12,141
Customer accounts	138,007	39,379	206	-	177,592
Debt securities in issue and other borrowed funds	-	2	-	-	2
Other financial liabilities	1,499	1,024	-	48	2,571
Other non-financial liabilities	548	25	1	20	594
Subordinated debt	-	1,118	-	9,582	10,700
Total reportable segment liabilities	140,211	41,548	207	48,713	230,679

24 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
2015					
External revenues	15,326	23,074	64	361	38,825
Revenues from/(expenses on) other segments	11,081	(23,184)	(333)	7,248	(5,188)
Total revenues	26,407	(110)	(269)	7,609	33,637
Total revenues comprise:					
- Interest income	18,267	(2,244)	(333)	7,524	23,214
- Fee and commission income	6,320	1,813	53	85	8,271
- Other operating income	1,820	321	11	-	2,152
Total revenues	26,407	(110)	(269)	7,609	33,637
Interest expense	(16,821)	(2,962)	(8)	(8,247)	(28,038)
Provision for impairment of loans and advances to customers	(2,031)	(7,074)	-	194	(8,911)
Gains less losses from embedded derivatives	-	9,903	-	(78)	9,825
Gain from disposal of investment in subsidiaries	-	-	60	-	60
Other provisions	(203)	(13)	-	-	(216)
Fee and commission expense	(1,505)	-	(1)	(146)	(1,652)
Gains less losses from trading in foreign currencies	(1,317)	1,600	1	(2,150)	(1,866)
Administrative and other operating expenses	(4,112)	(930)	(16)	(699)	(5,757)
Depreciation and amortization charge	(259)	(82)	(1)	(65)	(407)
Segment result	159	332	(234)	(3,582)	(3,325)

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

Total consolidated revenues comprise interest income, fee and commission income and other operating income for the year ended 31 December:

In millions of Ukrainian hryvnias	2016	2015
Total revenues for reportable segments	45,094	33,637
(a) Recognition of embedded derivatives	-	(2,280)
(b) Consolidation adjustments	767	1,079
(c) Other adjustments	-	1,121
(d) Unallocated revenues	-	5,187
(e) Provision for impairment	-	(118)
Total consolidated revenues	45,861	38,626

24 Segment Analysis (Continued)

Reconciliation of reportable profit or loss for the year ended 31 December:

In millions of Ukrainian hryvnias	2016	2015
Total reportable segment result	(176,814)	(3,325)
(a) Recognition of embedded derivatives	-	(5,198)
(b) Consolidation adjustments	(406)	82
(c) Other adjustments	-	2,402
(d) Unallocated revenues	-	3,747
(e) Release of provision for impairment	-	2,764
(Loss) / Profit before tax	(177,220)	472

Reconciliation of reportable assets for the year ended 31 December:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Total reportable segment assets	205,183	258,257
(a) Recognition of embedded derivatives	-	684
(b) Consolidation adjustments	176	16,325
(c) Other adjustments	-	(219)
(d) Unallocated assets	-	1,119
(e) Provision for impairment	-	(289)
(f) Swap and spot operations at fair value	-	(358)
(g) Reclassifications	-	(585)
Total consolidated assets	205,359	274,934

Reconciliation of reportable liabilities for the year ended 31 December:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Total reportable segment liabilities	206,065	230,679
(a) Recognition of embedded derivatives	-	-
(b) Consolidation adjustments	7	14,788
(c) Other adjustments	-	166
(d) Unallocated liabilities	-	1,158
(f) Swap and spot operations at fair value	-	(479)
(g) Reclassifications	-	(584)
(h) Deferred income tax liability	-	161
Total consolidated liabilities	206,072	245,889

24 Segment Analysis (Continued)

Reconciliation of material items of income for the year ended 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Interest income	Fee and commission income	Gains less losses from embedded and financial derivatives
Total amount for all reportable segment	33,255	10,365	(23,955)
(a) Recognition of embedded derivatives	-	-	-
(b) Consolidation adjustments	202	327	-
(c) Other adjustments	-	-	-
(d) Unallocated revenues/(expenses)	-	-	-
(g) Reclassifications	-	-	-
As reported under IFRS	33,457	10,692	(23,955)

Reconciliation of material items of expense for the year ended 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
Total amount for all reportable segment	(29,364)	(154,617)	(9,906)
(b) Consolidation adjustments	(110)	81	(868)
(c) Other adjustments	-	-	-
(d) Unallocated revenues/(expenses)	-	-	-
(e) Provision for impairment	-	-	-
(g) Reclassifications	-	-	-
As reported under IFRS	(29,474)	(154,536)	(10,774)

Reconciliation of material items of income for the year ended 31 December 2015 is as follows:

In millions of Ukrainian hryvnias	Interest income	Fee and commission income	Gains less losses from embedded derivatives
Total amount for all reportable segment	23,214	8,271	9,825
(a) Recognition of embedded derivatives	(2,280)	-	(3,254)
(b) Consolidation adjustments	514	338	-
(c) Other adjustments	814	131	36
(d) Unallocated revenues	5,187	-	-
(g) Reclassifications	3,705	(1,742)	(90)
As reported under IFRS	31,154	6,998	6,517

24 Segment Analysis (Continued)

Reconciliation of material items of expense for the year ended 31 December 2015 is as follows:

In millions of Ukrainian hryvnias	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
Total amount for all reportable segment	(28,038)	(8,911)	(6,164)
(b) Consolidation adjustments	(996)	(98)	(645)
(c) Other adjustments	(71)	(661)	52
(d) Unallocated	(6)	-	(2,040)
(e) Release of provision/(provision) for impairment	-	6,507	(25)
(g) Reclassifications	254	(626)	(243)
As reported under IFRS	(28,857)	(3,789)	(9,065)

Reconciliation of material assets as at 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Cash and cash equivalents and mandatory reserves	Due from banks	Loans and advances to customers	Embedded derivative assets	Other financial assets
Total amount for all reportable segment	30,159	2,410	43,583	27,044	229
(a) Recognition of embedded derivatives	-	-	-	-	-
(b) Consolidation adjustments	-	-	(1)	-	40
(c) Other adjustments	-	-	-	-	-
(e) Provision for impairment	-	-	-	-	-
(f) Swap and spot operations at fair value	-	-	-	-	-
(g) Reclassifications	-	-	-	-	-
As reported under IFRS	30,159	2,410	43,582	27,044	269

Reconciliation of material liabilities as at 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Due to banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subordinated debt
Total amount for all reportable segment	2,667	181,133	2	4,000	122
(b) Consolidation adjustments	-	(5)	-	10	-
(c) Other adjustments	-	-	-	-	-
(f) Swap and spot operations at fair value	-	-	-	-	-
(g) Reclassifications	-	-	-	-	-
As reported under IFRS	2,667	181,128	2	4,010	122

24 Segment Analysis (Continued)

Reconciliation of material assets as at 31 December 2015 is as follows:

In millions of Ukrainian hryvnias	Cash and cash equivalents and mandatory reserves	Due from banks	Loans and advances to customers	Embedded derivative assets	Non-current assets held for sale (or disposal groups)	Other financial assets
Total amount for all reportable segment	31,803	1,507	177,934	-	-	42,298
(a) Recognition of embedded derivatives	-	-	29	30,673	-	(30,018)
(b) Consolidation adjustments	6,425	324	6,025	-	192	51
(c) Other adjustments	-	-	(262)	-	-	-
(e) Provision for impairment	-	-	(289)	-	-	-
(f) Swap and spot operations at fair value	-	-	(357)	-	-	-
(g) Reclassifications	(2,619)	1,858	12,259	-	-	(12,042)
As reported under IFRS	35,609	3,689	195,339	30,673	192	289

Reconciliation of material liabilities at 31 December 2015 is as follows:

In millions of Ukrainian hryvnias	Due to banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subordinated debt
Total amount for all reportable segment	12,141	177,592	2	3,165	10,700
(b) Consolidation adjustments	(152)	13,936	(126)	632	419
(c) Other adjustments	10	(38)	100	485	(9)
(f) Swap and spot operations at fair value	-	(478)	-	-	-
(g) Reclassifications	(7,523)	898	9,169	(1,481)	(1,644)
As reported under IFRS	4,476	191,910	9,145	2,801	9,466

The reconciling items are attributable to the following:

(a) – Embedded derivative financial assets under IFRS are recorded at fair value in the consolidated financial statements of separate line on statement of financial position.

(b) – Segment reporting is prepared before consolidation of subsidiaries.

(c) – Other different, mainly in presentation of assets and liabilities according to IFRS.

(d) – Unallocated balances, revenues and results represent amounts which relate to activities of head office functional departments and are not included in the reportable segments.

(e) – Adjustment of impairment provisions related to the differences between the estimates of the Group and the results of the audit.

(f) – The Group presented swap and spot operations on gross basis in its segment reporting prepared in accordance with the NBU rules.

(g) – Reclassifications are done based on the economic substance of transactions. The Group presented debt securities issued separately in IFRS financial statements.

(h) – In Segment reporting the CODM did not analyse taxation.

24 Segment Analysis (Continued)

The Group did not analyse the capital expenditure, current and deferred income tax in segment reporting.

(e) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 20 (interest income), Note 21 (fee and commission income).

(f) Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows for the year ended 31 December:

In millions of Ukrainian hryvnias	2016	2015
Ukraine	44,313	34,224
Other countries	1,548	4,402
Total consolidated revenues	45,861	38,626

The analysis is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine. Revenues comprise interest income, fee and commission income and other operating income.

(g) Major customers

The Group does not have customers which generate revenues exceeding 10% of the total revenue of the Group.

25 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks. During the year 2016, the Group reconsidered its risk management process and introduced certain changes in its risk management function, including but not limited to changes in responsibilities of specific divisions, stress-testing procedures, frequency of various reports, etc. These changes had no significant impact on the Group's overall risk management function.

As discussed in Note 2 political and economic situation in Ukraine deteriorated since 2014. In response to this the Group adopted number of changes in its risk management practices such as:

- more robust scoring process and additional stop-factors were introduced;
- decrease of lending limits on cards from UAH 15,000 to UAH 5,000;
- the Group had stopped issuing loans and decreased loan limits for borrowers operating in areas that are not controlled by the Ukrainian authorities;
- the Group had changed its legal entities lending process in order to reduce its exposure to certain industries; and
- the Group ceased lending in Crimea in 2014.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the "Credit Committee"). Other bodies responsible for risk management within the Group include the Treasury, Risk Management Division, Internal Control and Fraud-Management Division, the Finance and Risk Division. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Division and Financial Monitoring Department. In addition, Compliance department monitors compliance of risk management process and function with regulatory and other legislative requirements.

25 Financial Risk Management (Continued)

Credit Committee

The Credit Committee meets once a week and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the loan portfolio and reviewing large loan projects and the lending policies of the branches. The Credit Committee also monitors the interest rates set by the Group's main competitors and the overall market situation and determines the pricing policy on the basis of the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for decisions, which may have a significant impact on assets and liabilities, funding base and compliance with liquidity ratios.

Treasury

The Treasury is responsible for day-to-day asset and liability management. The Treasury performs an analysis and controls the Group's liquidity position and interest rate risk exposure based on instructions and guidelines from the Finance and Risk Division and its own assessments. The Treasury also monitors and controls compliance with respective regulatory and internal risk ratios set in accordance with regulatory and internal requirements.

Finance and Risk Division

The Finance and Risk Division prepares daily reports on liquidity and interest risks, calculates and monitors respective ratios. The reports are accessible by the Treasury and other risk management function divisions. The Finance and Risk Division also develops detailed internal procedures and guidelines to manage these risks.

Risk-Management Division

The Risk Management Division develops guidelines and policies for identification, assessment, measurement and control of credit risk, primarily in lending process, and regularly performs credit risk stress-testing. Also Risk Management Division sets limits for interbank transactions.

Internal Control and Fraud-Management Division

The Internal Control and Fraud-Management Division reviews and checks the results of work performed by the divisions of the Group and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Internal Control and Fraud-Management Division develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Group's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial contract will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The general principles of the Group's credit policy are outlined in the Credit Policy. The Credit Manual regulates all key steps in lending operations of the Group and outlines procedures to analyse borrowers' financial position and collateral valuation. Also it sets requirements for loan documentation and procedures to monitor loan performance.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26. The credit risk is mitigated by collateral and other credit enhancements.

The Group structures the levels of credit risk it undertakes by setting limits on the amount of risk accepted in relation to one borrower, or group of borrowers.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Group has a collateral policy in place, which includes a thorough review and assessment of collateral value.

Basic information on credit risk level, including reports on the loan portfolio and problem assets volume broken down by credit programme and manager is updated weekly and reviewed both as at the current date and over a period of time.

25 Financial Risk Management (Continued)

Credit Committee on a monthly basis reviews credit policies effectiveness for each business division and analysis information on the levels of non-performing loans.

Loan Approval Procedure

The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBU regulations. The Group also has detailed regulations for collateral assessment, which is conducted by the Group's qualified internal appraisers.

The Group sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of branches (comprising heads of branches, general and first deputy heads) are set twice per year by Risk-Management Division in the head office and approved by an order of the Group together with proxies authorising the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or subbranch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a loan does not exceed the lending authority limit of a head of a branch or subbranch, the decision on granting the loan is taken by the credit committee of the branch. If the amount exceeds this limit, lending authority limit may be granted from the head office in accordance with the Group's credit procedures.

Off-Balance Sheet Policy

Credit risk for off-balance sheet financial instruments is defined as a possibility of sustaining a loss as a result of another party to a financial contract failing to perform in accordance with the terms of the contract. Credit approval procedures, risk control limits and monitoring procedures for off-balance sheet financial instruments are established by the Group.

Loan Monitoring

The Group's IT systems allow on-line monitoring of loans' performance by Management.

The Group reassesses credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of a borrower and (ii) assessing the sufficiency of collateral. The financial and market position of a borrower is regularly reviewed and, on the basis of such review, an internal credit rating of a borrower may be revised. The review is based on the flow of funds into customer's accounts, its most recent financial statements and other business and financial information submitted by a borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to a loan in question. The review of collateral is performed by independent appraisal companies or qualified internal appraisers. The frequency of such reviews depends on the type of collateral.

Management maintains individual records of a significant number of Ukrainian retail customers, which constitutes the largest credit history bureau in Ukraine, allowing the Group to mitigate credit risks by targeting borrowers, who have a good credit history.

Problem Loan Recovery

The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Group to achieve the highest level of repayment on nonperforming loans.

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, credit officers contact the borrower, date to demand repayment. If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a "problem loan". The Risk-Management Division, which is responsible for identification of problem loans in the Group, issues a banking order each month to transfer problem loans from the relevant credit unit's books to a specialised unit within Soft Collection, Credit Collection and Security Division.

25 Financial Risk Management (Continued)

Soft Collection, Credit Collection and Security Division are responsible for all loans issued by the Group classified as "problem loans", excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Division obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Group initiates court proceedings. The Security Division will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower's account(s) with another Group or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower's willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Group include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower's readiness to repay its debt, the Group involves the relevant state authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Group maintains a policy not to refinance problem loans without convincing evidence they will be repaid or reliably secured.

Related Party Lending

The Group conducts its business with related parties on commercial terms. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. In respect of currency risk, Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Group's policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. In order to hedge its currency risk, the Group enters into arrangements with Groups pursuant to which the Group places term deposits with Groups and accepts term deposits for the same term from the same counterparties Groups in a different currency.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period and position in Ukrainian hryvnias:

	As at 31 December 2016				As at 31 December 2015			
In millions of Ukrainian hryvnias	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off-balance sheet position	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance and off-balance sheet position
Ukrainian hryvnias	144,013	100,709	-	43,304	148,013	113,411	(2,741)	31,861
US Dollars	16,680	84,902	-	(68,222)	99,549	104,007	2,164	(2,294)
Euros	6,550	17,933	-	(11,383)	18,451	25,180	601	(6,128)
Other	630	266	-	364	727	482	16	261
Total	167,873	203,810	-	(35,937)	266,740	243,080	40	23,700

Fair value of embedded derivatives was included in the table above together with host instruments into UAH denominated financial assets.

25 Financial Risk Management (Continued)

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss for the period and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	As at 31 December 2016		As at 31 December 2015	
In millions of Ukrainian hryvnias	Impact on profit or loss (before tax)	Impact on equity	Impact on profit or loss (before tax)	Impact on equity
US Dollar strengthening by 10% (2015: strengthening by10%)	(6,588)	(6,588)	345	345
US Dollar weakening by 5% (2015: weakening by 5%)	3,294	3,294	294	294
Euro strengthening by 10% (2015: strengthening by 10%)	(1,138)	(1,138)	(613)	(613)
Euro weakening by 5% (2015: weakening by 5%)	569	569	306	306
Other strengthening by 5% (2015: strengthening by 5%)	18	18	13	13
Other weakening by 5% (2015: weakening by 5%)	(18)	(18)	(13)	(13)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. Sensitivity of US Dollar exchange rate in the above table takes into account effect of recognition of fair value of derivative embedded in loans issued to customers.

Interest rate risk. The Group is exposed to the risk of financial losses as a result of possible changes in interest rates of financial instruments. Interest margins may increase due to such changes but may decrease or result in losses in the event that unexpected movements arise. Management sets limits on the acceptable level of mismatch of interest rates on financial assets and liabilities sensitive to interest rates, which is monitored regularly.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities could be revised to reflect current market conditions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. Quarterly (or as required), the Financial and Risk Division conducts stress testing (simple sensitivity tests) to determine the Group's exposure to possible losses and interest income sensitivity to them assuming rates fluctuation of 1%.

The Group also regularly performs interest rate gaps analysis of financial assets and liabilities sensitive to interest rates. For this fixed interest rate assets and liabilities are arranged by remaining maturities, while assets and liabilities with a variable interest rate are arranged by the earliest repricing dates. The net sensitivity gap between assets and liabilities in a given time band represents the exposure sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest-bearing assets exceed interest-earning liabilities in that time band, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

25 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earliest of contractual interest repricing or maturity dates.

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-monetary	Total
31 December 2016						
Total financial assets	33,706	2,630	6,610	124,927	507	168,380
Total financial liabilities	91,096	32,746	77,299	2,669	-	203,810
Net interest sensitivity gap at 31 December 2016	(57,390)	(30,116)	(70,689)	122,258	507	(35,430)
31 December 2015						
Total financial assets	51,390	26,908	124,167	64,318	1,880	268,663
Total financial liabilities	109,034	33,651	69, 972	30, 426	-	243,083
Net interest sensitivity gap at 31 December 2015	(57,644)	(6,743)	54 ,195	33, 892	1,880	25,580

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	31 December 2016				31 December 2015			
In % p.a.	USD	UAH	Euro	Other	USD	UAH	Euro	Other
Assets								
Correspondent accounts and overnight deposits with banks	-	-	-	-	-	-	-	-
Correspondent accounts with Central Banks	-	-	-	-	-	-	-	-
Due from banks	-	-	-	-	-	-	-	-
Loans and advances to legal entities	4	11	11	5	9	16	6	5
Loans and advances to individuals	15	42	15	-	14	43	9	-
Investment securities available-for-sale	-	10	-	-	-	-	-	-
Debt investment securities held to maturity	-	-	-	-	-	-	-	-
Liabilities								
Due to the NBU	-	21	-	-	-	23	-	-
Correspondent accounts and overnight deposits of banks	10	5	6	-	14	-	9	-
Term placements of banks	3	-	2	-	11	25	5	-
Long-term loans under the credit lines from international financial institutions	10	-	-	-	-	-	-	-
Customer accounts								
- current accounts of customers	0	5	0	-	2	7	1	-
- term deposits of legal entities	11	18	5	-	10	19	8	-
- term deposits of individuals	8	18	7	4	12	24	10	7
Debt securities in issue	-	15	-	-	11	15	-	-
Subordinated debt	-	9	-	-	10	9	6	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

25 Financial Risk Management (Continued)

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current period profit and equity at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2016 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	18,078	10,484	1,597	30,159
Due from banks	-	2,410	-	2,410
Loans and advances to customers	39,351	280	3,951	43,582
Embedded derivative assets	27,044	-	-	27,044
Investment securities available-for-sale	64,409	-	-	64,409
Investments in associates	-	507	-	507
Other financial assets	57	147	65	269
Total financial assets	148,939	13,828	5,613	168,380
Non-financial assets	23,116	55	13,808	36,979
Total assets	172,055	13,883	19,421	205,359
Liabilities				
Due to the NBU	18,047	-	-	18,047
Due to banks and other financing institutions	44	2,605	18	2,667
Customer accounts	168,048	9,666	3,414	181,128
Debt securities in issue	2	-	-	2
Other financial liabilities	1,048	692	104	1,844
Subordinated debt	122	-	-	122
Total financial liabilities	187,311	12,963	3,536	203,810
Non-financial liabilities	2,258	-	4	2,262
Total liabilities	189,569	12,963	3,540	206,072
Net balance sheet position	(17,514)	920	15,881	(713)
Credit related commitments (Note 27)	1,484	105	62	1,651

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

25 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2015 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	15,723	14,354	5,532	35,609
Other financial assets at fair value through profit or loss	-	-	238	238
Due from banks	9	3,656	24	3,689
Loans and advances to customers	158,546	18,062	18,731	195,339
Embedded derivative assets	30,673	-	-	30,673
Investment securities available-for-sale	1	1,928	131	2,060
Investment securities held to maturity	-	211	555	766
Other financial assets	140	39	110	289
Total financial assets	205,092	38,250	25,321	268,663
Non-financial assets	4,220	10	2,041	6,271
Total assets	209,312	38,260	27,362	274,934
Liabilities				
Due to the NBU	27,079	-	-	27,079
Due to banks and other financing institutions	2,022	2,372	82	4,476
Customer accounts	159,979	17,127	14,804	191,910
Debt securities in issue	2	9,143	-	9,145
Other financial liabilities	663	23	321	1,007
Subordinated debt	1,257	3,427	4,782	9,466
Total financial liabilities	191,002	32,092	19,989	243,083
Non-financial liabilities	2,585	4	217	2,806
Total liabilities	193,587	32,096	20,206	245,889
Net balance sheet position	15,725	6,164	7,156	29,045
Credit related commitments and financial guarantees (Note 27)	1,284	209	716	2,209

Liquidity risk. Liquidity risk is the Group will be unable to meet its obligations. Liquidity risk arises from the mismatch of the Group's financial assets and financial liabilities (including due to untimely performance of financial obligations by one or more counterparties of the Group) and (or) emergence of unexpected necessity of immediate and simultaneous discharging by the Group of its financial obligations. Liquidity risk is managed by the Treasury of the Group.

The Group's liquidity management includes maintenance of such level of liquid assets as necessary to settle obligations when they fall due; maintenance of access to a range of funding sources and funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Group seeks to maintain a stable funding base and develop sources of resources primarily consisting of amounts due to corporate and retail customers. The Treasury accumulates an adequate portfolio of short-term liquid assets, largely made up of correspondent accounts, overnights placements and deposits with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

The Group calculates regulatory liquidity ratios set by the National Bank of Ukraine on a daily basis. These ratios are:

25 Financial Risk Management (Continued)

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 63,52% at 31 December 2016 (31 December 2015: 56,87%) with the minimum required limit of 30% for saving banks and 20% for other banks (31 December 2015: 30% for savings banks and 20% for other banks).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 147,43% at 31 December 2016 (31 December 2015: 59,88%) with the minimum required limit of 40% (31 December 2015: 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 73,83% at 31 December 2016 (31 December 2015: 97,09%) with the minimum required limit of 60% (31 December 2015: 60%).

The liquidity risk reports are used by the Treasury to manage liquidity on a day-to-day basis.

Head of the Treasury is responsible for decisions to manage current liquidity. The Treasury reviews payment schedules by-weekly and manages liquidity position real-time by selling investment securities, placing or attracting short-term resources at interbank market or through other available financial facilities. The Treasury also analyses the possible consequences of the withdrawal of a large amount of funds by major customers to minimise unexpected changes in funding requirements. Responsible divisions coordinate changes in scheduled payments with the customers if required. The Treasury ensures compliance with the mandatory reserve requirement and the regulatory liquidity ratios. The Credit Committee reviews liquidity risk reports to control the decisions.

The Group also has a liquidity crisis plan in place, which includes early warning indicators and a step-by-step procedures in the event of unexpected liquidity emergencies for the divisions of the Group as well as for their coordination. The Finance and Risk Division also regularly conducts liquidity stress-testing under normal or more severe market conditions scenarios.

The table below shows liabilities at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because amounts disclosed in consolidated statement of financial position are based on discounted cash flows.

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

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	14,589	1,319	2,689	-	-	18,597
Due to banks and other financing institutions	138	90	2,375	252	-	2,855
Customer accounts	78,597	32,774	72,869	3,049	64	187,353
Debt securities in issue	-	-	-	-	3	3
Subordinated debt	2	2	8	132	-	144
Other financial liabilities	1,076	562	206	-	-	1,844
Total contractual future payments for financial obligations	94,402	34,747	78,147	3,433	67	210,796
Credit related commitments and financial guarantees, gross (Note 27)	2,655	-	-	-	-	2,655

25 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	18,622	2,031	7,369	802	-	28,824
Due to banks and other financing institutions	1,329	76	1, 199	1,136	1,736	5,476
Customer accounts	88,236	35,395	65,806	11,494	5	200,936
Debt securities in issue	45	483	1,447	9,204	-	11,179
Subordinated debt	56	266	572	8,558	4,042	13,494
Other financial liabilities	977	18	11	1	-	1,007
Gross settled swaps, spots and forwards	5,791	-	-	-	-	5,791
Total contractual future payments for financial obligations	115,056	38,269	76,404	31,195	5,783	266, 707
Credit related commitments and financial guarantees, gross (Note 27)	2,328	-	-	-	-	2,328

Customer accounts are classified in the above analysis based on contractual maturities.

25 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2016:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	30,159	-	-	-	-	30,159
Due from banks	564	1,080	766	-	-	2,410
Loans and advances to customers	10,818	6,483	17,797	8,484	-	43,582
Embedded derivative assets	-	-	-	27,044	-	27,044
Investment securities available-for-sale	1	12	38	64,358	-	64,409
Investments in associates	-	-	-	-	507	507
Other financial assets	261	-	3	5	-	269
Total financial assets	41,803	7,575	18,604	99,891	507	168,380
Liabilities						
Due to the NBU	14,266	1,210	2,571	-	-	18,047
Due to banks and other financial institutions	136	55	2,235	241	-	2,667
Customer accounts	52,276	41,572	84,753	2,527	-	181,128
Debt securities in issue	-	-	-	2	-	2
Other financial liabilities	1,076	8	206	554	-	1,844
Subordinated debt	1	-	-	121	-	122
Total financial liabilities	67,755	42,845	89,765	3,445	-	203,810
Net liquidity gap at 31 December 2016	(25,952)	(35,270)	(71,161)	96,446	507	(35,430)
Cumulative liquidity gap at 31 December 2016	(25,952)	(61,222)	(132,383)	(35,937)	(35,430)	
Credit related commitments and financial guarantees (Note 27)	1,651	-	-	-	-	1,651

In accordance with effective legislation, the Group is obliged to repay term deposits of individuals on demand of a depositor if early repayment option is set contractually, but in this case a depositor's right to accrued interest is forfeited. The Group expects that customers will not request term deposits early, thus these balances are included in disclosures above in accordance with their contractual maturities. Current accounts are included on their historical stability assessed on a quarterly average basis, which the Group expects to continue with no significant changes.

As at 31 December 2016, on demand and less than in one month amounts due to the NBU included a past due amount of refinancing loans of UAH 13,469 million (2015: UAH 16,720 million). The NBU did not demand these refinancing loans for immediate repayment at the date of these consolidated financial statements.

25 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2015:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	35,609	-	-	-	-	35,609
Other financial assets at fair value through profit or loss	-	-	-	238	-	238
Due from banks	2,304	424	961	-	-	3,689
Loans and advances to customers	18,143	21,744	95,449	60,003	-	195,339
Embedded derivative assets	201	1,518	23,476	5,478	-	30,673
Investment securities available-for-sale	146	-	-	33	1,881	2,060
Investment securities held to maturity	725	7	29	5	-	766
Other financial assets	192	-	-	96	1	289
Total financial assets	57,320	23,693	119,915	65,853	1,882	268,663
Liabilities						
Due to the NBU	18,101	1,679	6,534	765	-	27,079
Due to banks and other financial institutions	1,315	54	1,095	2,012	-	4,476
Customer accounts	64,313	42,420	74,335	10,842	-	191,910
Debt securities in issue	45	300	968	7,832	-	9,145
Other financial liabilities	977	18	11	1	-	1,007
Subordinated debt	27	136	17	9,286	-	9,466
Total financial liabilities	84,778	44,607	82,960	30,738	-	243,083
Net liquidity gap at 31 December 2015	(27,458)	(20,914)	36,955	35,115	1,882	25,580
Cumulative liquidity gap at 31 December 2015	(27,458)	(48,372)	(11,417)	23,698	25,580	
Credit related commitments and financial guarantees (Note 27)	2,209	-	-	-	-	2,209

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

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

26 Management of Capital

Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually. Under the current capital requirements set by the National Bank of Ukraine Banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level.

a) The Group also manages its capital, including 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 April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Tier 1 capital	(2,457)	26,869
Tier 2 capital (a portion not exceeding 100% of Tier 1)	-	9,447
Total capital	(2,457)	36,316
Risk Weighted Assets		
Banking book	105,432	235,694
Trading book	79,606	8,661
Risk Weighted Assets	185,038	244,355
Tier 1 capital ratio	(1.33%)	11.00%
Capital adequacy ratio (%)	(1.33%)	14.86%

b) As at 31 December 2016, the National Bank of Ukraine required banks in Ukraine to maintain a capital adequacy ratio at least 10% of risk weighted assets calculated in accordance with the regulations of the National Bank of Ukraine (31 December 2015: at least 10%).

Regulatory capital in accordance with the NBU's regulations comprises:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Adjusted net assets	3,515	18,247
Add: Subordinated debt	54	7,740
Less: Investments in subsidiaries and associates	(433)	(435)
Total regulatory capital	3,136	25,552
Risk weighted assets	126,308	236,087
Open foreign currency position	23,154	2,808
Capital adequacy ratio (N2)	2.10%	10.70%

Net assets included in the table above are adjusted according to the NBU regulations, including the adjustment relating to the calculation of provision for loans and advances to customers in accordance with Regulation No. 23 of the Board of the National Bank of Ukraine dated 25 January 2012 "On Calculation of the Loan Loss Provision by Ukrainian Banks" ("Regulation No. 23").

27 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. As at 31 December 2016, provision of UAH 36 million has been recorded for potential legal liabilities (31 December 2015: UAH 21 million). For the provision associated with loss of control over its business in Crimea refer to Notes 4 and 2.

As disclosed in Note 1, at the nationalisation of the Bank, the DGF has converted UAH 10,934 million of amounts due to customers, UAH 10,721 million of Eurobonds issued and UAH 7,783 million of subordinated debt into the share capital. At the date of these consolidated financial statements, USD 279 million and UAH 1,579 million and EUR 3 million of claims (UAH 9,043million at exchange rate as at the date of these financial statements) were filed against the Bank in respect of some of these liabilities. The ultimate outcome cannot be determined. Consequently, the Group did not recognise any provision for these claims.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

Management further believes that ascertained risks of possible outflow of resources arising from tax and other regulatory compliance matters in the periods preceding 31 December 2016 do not exceed UAH 2,409 million.

Capital expenditure commitments. At 31 December 2016 the Group had contractual capital expenditure commitments in respect of construction of premises and acquisition of computers and furniture and equipment totalling UAH 22 million (31 December 2015: UAH 56 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. As at 31 December 2016, and 2015 the Group had no commitments under non-cancellable operating leases.

Compliance with covenants. The Group is also subject to certain covenants related to refinancing loans obtained from the NBU. As at 31 December 2016, the Group was not in compliance with capital adequacy ratio, maximum credit exposure to a single borrower long open currency position and short open currency position ratios as well as other non-financial restrictions prescribed by the loan agreements with the NBU.

In 2015 and 2016, the NBU performed its reviews of the Group's compliance with refinancing loan's covenants and did not request early repayment of the loans. Refer to Note 4.

Contingent liabilities. As at 31 December 2016 the Group had a contingent liability of UAH 6,916 million relating to cessation of its operations in Crimea, being the outstanding amount of customer accounts in Crimea at discontinuance of operations (i.e. as of November 2014) less amount claimed and provisioned. Refer to Note 4. It is not probable that outflow of resources will be required to settle these obligations originated in Crimea and the amount of such obligations cannot be measured reliably by the Group.

27 Contingencies and Commitments (Continued)

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

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

In millions of Ukrainian hryvnias	Note	31 December 2016	31 December 2015
Guarantees issued		1,773	1,502
Import letters of credit		588	609
Irrevocable commitments to extend credit		294	217
Less: Cash covered letters of credit		(757)	(63)
Less: Provision for credit related commitments	18	(247)	(56)
Total credit related commitments and financial guarantees		1,651	2,209

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments as at 31 December 2016 and 2015 was insignificant.

As at 31 December 2016, irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount UAH 757 million (31 December 2015: UAH 63 million) were secured by customer accounts of UAH 757 million (31 December 2015: UAH 63 million).

Credit related commitments are denominated in currencies as follows:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015
Ukrainian Hryvnias	1,112	879
US Dollars	215	902
Euro	139	224
Other currencies	185	204
Total	1,651	2,209

As at 31 December 2016, the Group had undrawn credit limits on credit cards of UAH 20,264 million (31 December 2015: UAH 19,383 million) that were available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally. Provision for undrawn credit limits on credit cards was not significant as at 31 December 2016 and 2015.

27 Contingencies and Commitments (Continued)

Fiduciary assets. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

In millions of Ukrainian hryvnias	31 December 2016 Nominal value	31 December 2015 Nominal value
Shares of Ukrainian companies	4,822	6,512
Domestic corporate bonds	717	834
Investment certificates	319	283

Financial agency arrangements for customers

In 2016, the Group introduced a new service for existing retail customers holding card accounts with the Bank. The Group provided intermediary agent services (processing and advisory services) for peer-to-peer (P2P) lending (payments) for a fee. As all risks and rewards resided with third parties– investors, investees and insurance companies, the Group recognised no assets and liabilities on these transactions, except for fee amounts related to the Group's involvement. As at 31 December 2016 the outstanding balance due to investors by investees under P2P lending comprised UAH 4,462 million.

New management of the Group appointed in December, 2016 made a decision to change terms of these services. Subsequent to the reporting date, all existing contracts with customers were amended in a way that the Group has become a primary party bearing key risks and rewards for financing and investing within P2P lending arrangements. Thus at the date of modification of arrangements the Group recorded related amounts at its consolidated statement of financial position. At the date of these consolidated financial statements, the Group recorded UAH 2,968 million due to customers and UAH 4,015 million of loans and advances to customers originated through the P2P lending arrangements.

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

	Note	31 December 2016		31 December 2015	
In millions of Ukrainian hryvnias		Asset pledged and restricted	Related liability/ commitment	Asset pledged and restricted	Related liability/ commitment
Gross receivables under swap, forward and spot agreements		(1)	-	5,831	5,791
Loans and advances to customers	10,	-	-	402	14
Mandatory reserve balances with the NBU, premises, investment properties, repossessed collateral and loans and advances to customers (2015: mandatory reserve balances with the NBU, premises and loans and advances to customers)	8, 10, 12, 14, 15	34,658	18,047	46,077	27,079
Total		34,657	18,047	52,310	32,884

Gross receivables under swap, forward and spot agreements presented above were recognised on a net basis in the statement of financial position, giving rise to a derivative financial asset or liability within other financial assets or other financial liabilities, respectively.

The mandatory reserve balance and blocked amounts of UAH 1,486 million (31 December 2015: UAH 287 million) were excluded from cash and cash equivalents and represent mandatory reserve deposits which are not available to finance the Group's day to day operations as disclosed in Note 8.

As disclosed in Note 9, balances due from banks of UAH 2,410 million (31 December 2015: UAH 1,574 million) have been pledged as cover for letters of credit and international payments.

28 Fair Value of Financial Instruments

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

(a) Recurring fair value measurements.

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

	31 December 2016				31 December 2015			
In millions of Ukrainian hryvnias	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE								
Other financial assets at fair value through profit or loss	-	-	-	-	-	238	-	238
Investment securities available-for-sale								
Government bonds	-	-	64 409	64 409	177	-	-	177
Unquoted shares	-	1	-	1	-	1,883	-	1,883
Investments in associates	-	-	507	507	-	-	-	-
Embedded derivative assets	-	-	27,044	27,044	-	-	30,673	30,673
Other financial assets								
Financial derivatives arising from swap, forward and spot transactions	-	-	-	-	-	-	43	43
NON-FINANCIAL ASSETS								
Premises, leasehold improvements, equipment and intangible assets	-	-	2,134	2,134	-	-	2,294	2,294
Investment properties	-	-	1,358	1,358	-	-	-	-
Repossessed collateral	-	-	21,836	21,836	-	-	-	-
TOTAL ASSETS RECCURING FAIR VALUE MEASUREMENT	-	1	117 288	117 289-	177	2,121	33,010	35,308
FINANCIAL LIABILITIES AT FAIR VALUE								
Other financial liabilities								
Financial derivatives arising from swap, forward and spot transactions	-	-	-	-	-	-	3	3
TOTAL LIABILITIES RECCURING FAIR VALUE MEASUREMENTS	-	-	-	-	-	-	3	3

Valuation technique used for level 2 measurements is linked to market prices of quoted shares of the same companies on active market.

28 Fair Value of Financial Instruments (Continued)

Valuation technique used for level 3 measurements included discounted cash flows and other appropriate valuation techniques (models). Embedded derivative assets and investment securities available-for-sale are classified into level 3 instruments because these instruments require management to make assumptions for certain adjustments which had significant impact on fair values - exchange rates volatility, discount rates and/ or a credit risk of the counterparties which are not fully supportable by observable market data.

Movements in level 3 financial instruments measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy of the embedded derivative assets for the year ended 31 December 2016 and 2015 is as follows:

In millions of Ukrainian hryvnias	Embedded derivative assets	Investment securities available-for-sale	Embedded derivative liabilities
Fair value at 1 January 2015	19,978	-	(10,047)
Initial recognition of derivative recorded as adjustment to the amounts of loans and advances to customers	2,029	-	-
Total gains (losses) recorded in profit of loss:			
Gains less losses from embedded derivative assets	9,671	-	(3,154)
Settlements:			
Cash (received)/paid	(1,005)	-	13,201
Fair value as at 31 December 2015	30,673	-	-
Initial recognition of derivative recorded as adjustment to the amounts of loans and advances to customers	1,086	-	-
Investment securities available-for-sale received as a contribution into the share capital	-	107,000	-
Total gains (losses) recorded in :			
- directly in equity :			
Initial recognition	27,296	(17,362)	-
Revaluation of investment securities available-for-sale	-	520	-
- profit or loss:			
Interest income accrued on investment securities available-for-sale	-	51	-
Losses less gains from embedded derivative assets	(23,955)	-	-
Settlements:			
Cash received	(953)	(25,800)	-
Embedded derivative settled with repossessed collateral	(7,103)	-	-
Fair value as at 31 December 2016	27,044	64,409	-

28 Fair Value of Financial Instruments (Continued)

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

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

	31 December 2016				31 December 2015			
In millions of Ukrainian hryvnias	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS								
Due from banks								
Placements with banks	-	-	-	-	-	-	260	260
Guarantee deposits with banks	-	-	2,410	2,410	-	-	3,429	3,429
Loans and advances to customers								
Corporate loans	-	-	8,826	9,319	-	-	163,697	167,915
Loans to individuals – cards	-	-	15,823	15,830	-	-	17,536	17,536
Loans to individuals – mortgage	-	-	1,944	2,011	-	-	6,197	6,202
Loans to individuals – auto	-	-	16	13	-	-	142	276
Loans to individuals – consumer	-	-	961	961	-	-	546	542
Loans to individuals – other	-	-	361	351	-	-	1,008	1,012
Loans to small and medium enterprises (SME)	-	-	868	902	-	-	1,278	1,335
Finance lease receivables	-	-	14,195	14,195	-	-	537	521
Investment securities held to maturity								
Government bonds	-	-	-	-	762	-	-	734
Corporate bonds	-	-	-	-	31	-	-	31
Banking bonds	-	-	-	-	1	-	-	1
Financial assets included in non-current assets held for sale	-	-	-	-	-	-	192	192
Other financial assets								
Receivables from disposal of subsidiary	-	-	-	-	-	-	45	45
Receivables from operations with customers	-	-	161	161	-	-	29	29
Plastic cards receivables	-	-	-	-	-	-	22	22
Other	-	-	108	108	-	-	150	150
TOTAL	-	-	45,673	46,261	794	-	195,068	200,232

Fair value of cash and cash equivalents approximates their carrying value.

28 Fair Value of Financial Instruments (Continued)

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

	31 December 2016				31 December 2015			
In millions of Ukrainian hryvnias	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES								
Due to the NBU								
Due to the NBU	-	18,047	-	18,047	-	27,079	-	27,079
Due to banks and other financing institutions								
Term placements of banks	-	-	565	565	-	912	1,286	2,258
Long-term loans under the credit lines from other financing institutions	-	-	2,040	2,040	-	-	1,655	1,654
Correspondent accounts and overnight placements of banks	-	61	-	61	-	560	-	560
Pledge deposits of banks	-	-	1	1	-	-	4	4
Customer accounts								
Term deposits of individuals	-	-	119,749	119,519	-	-	112,767	111,773
Current/demand accounts of individuals	-	31,684	-	31,684	-	32,418	-	32,418
Current/settlement accounts of legal entities	-	15,250	-	15,250	-	30,610	-	30,614
Term deposits of legal entities	-	-	14,865	14,675	-	-	17,780	17,105
Debt securities in issue								
Eurobonds	-	-	-	2	6,232	-	-	9,131
Mortgage bonds	-	-	-	-	14	-	-	14
Liabilities directly associated with disposal groups held for sale	-	-	-	-	-	-	-	-
Other financial liabilities								
Funds in the course of settlement	-	-	67	67	-	-	54	54
Accounts payable	-	-	83	83	-	-	202	202
Other	-	-	1,694	1,694	-	-	748	748
Subordinated debt								
Subordinated debt	-	-	122	122	-	3,222	4,301	9,466
TOTAL	-	65,042	139,186	203,810	6,246	94,801	138,797	243,080

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

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

The Group's liabilities to its customers are subject to state deposit insurance plan as described in Note 1.The fair value of these liabilities reflects these credit enhancements.

29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement,* classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2016:

In millions of Ukrainian hryvnias	Loans and receiva-bles	Available-for-sale assets	Assets at FVTPL held for trading	Held to maturity	Finance lease recei-vables	Total
ASSETS						
Cash and cash equivalents and mandatory reserves	30,159	-	-	-	-	30,159
Due from banks						
Placements with banks	-	-	-	-	-	-
Guarantee deposits with banks	2,410	-	-	-	-	2,410
Loans and advances to customers						
Corporate loans	9,319	-	-	-	-	9,319
Loans to individuals – cards	15,830	-	-	-	-	15,830
Loans to individuals – mortgage	2,011	-	-	-	-	2,011
Loans to individuals – auto	13	-	-	-	-	13
Loans to individuals – consumer	961	-	-	-	-	961
Loans to individuals – other	351	-	-	-	-	351
Loans to small and medium enterprises (SME)	902	-	-	-	-	902
Finance lease receivables	-	-	-	-	14,195	14,195
Embedded derivative assets	-	-	27,044	-	-	27,044
Investment securities available-for-sale						
Government bonds	-	64,408	-	-	-	64,408
Banking bonds	-	-	-	-	-	-
Unquoted shares	-	1	-	-	-	1
Investments in associates	-	-	507	-	-	507
Other financial assets						
Receivables from operations with customers	161	-	-	-	-	161
Plastic cards receivables	-	-	-	-	-	-
Financial derivatives arising from swap, forward and spot	-	-	-	-	-	-
Other	108	-	-	-	-	108
TOTAL FINANCIAL ASSETS	62,225	64,409	27,551	-	14,195	168,380
NON-FINANCIAL ASSETS						36,979
TOTAL ASSETS						205,359

As at 31 December 2016 and 2015 all of the Group's financial liabilities were carried at amortised cost.

29 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2015:

In millions of Ukrainian hryvnias	Loans and receivables	Available-for-sale assets	Assets at FVTPL held for trading	Held to maturity	Finance lease receivables	Total
ASSETS						
Cash and cash equivalents and mandatory reserves	35,609	-	-	-	-	35,609
Other financial assets at fair value through profit or loss	-	-	238	-	-	238
Due from banks						
Placements with banks	260	-	-	-	-	260
Guarantee deposits with banks	3,429	-	-	-	-	3,429
Loans and advances to customers						
Corporate loans	167,915	-	-	-	-	167,915
Loans to individuals – cards	18,052	-	-	-	-	18,052
Loans to individuals – mortgage	6,202	-	-	-	-	6,202
Loans to individuals – auto	276	-	-	-	-	276
Loans to individuals – consumer	26	-	-	-	-	26
Loans to individuals – other	1,012	-	-	-	-	1,012
Loans to small and medium enterprises (SME)	1,335	-	-	-	-	1,335
Finance lease receivables	-	-	-	-	521	521
Embedded derivative assets	-	-	30,673	-	-	30,673
Investment securities available-for-sale						
Government bonds	-	177	-	-	-	177
Banking bonds	-	-	-	-	-	-
Unquoted shares	-	1,883	-	-	-	1,883
Investment securities held-to-maturity						
Government bonds	-	-	-	734	-	734
Banking bonds	-	-	-	1	-	1
Corporate bonds	-	-	-	31	-	31
Other financial assets						
Receivables from disposal of subsidiary	45	-	-	-	-	45
Receivables from operations with customers	29	-	-	-	-	29
Plastic cards receivables	22	-	-	-	-	22
Financial derivatives arising from swap, forward and spot	-	-	43	-	-	43
Other	150	-	-	-	-	150
TOTAL FINANCIAL ASSETS	234,362	2,060	30,954	766	521	268,663
NON-FINANCIAL ASSETS						6,271
TOTAL ASSETS						274,934

30 Related Party Transactions Before the Change of the Group's Owners

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

As discussed in Note 1, the Group was 100% owned by the Government starting from 19 December 2016. This Note 30 include transactions and balances with related parties before the change in the Group's ownership and thus list of related parties. Refer to Note 31 for details on transactions and balances with related parties after the change.

30 Related Party Transactions Before the Change of the Group's Owners (Continued)

At 19 December 2016 and 31 December 2015, the outstanding balances with related parties are as follows:

	19 December 2016			31 December 2015		
In millions of Ukrainian hryvnias	Major share - holders	Manage- ment	Companies under control of major shareholders	Major share - holders	Manage- ment	Companies under control of major shareholders
Loans and advances to customers (contractual interest rate: 2015: UAH - 16%, USD - 11%, EUR - 10%; 2015: UAH - 15%, USD - 17%, EUR - 15%)	-	-	8,808	-	6	34,503
Loans and advances to customers written off as uncollectable	-	-	(125)	-	-	(516)
Embedded derivative assets	-	-	702	-	-	6,572
Investment securities available-for-sale	-	-	-	-	-	1
Customer accounts (contractual interest rate: 2016: UAH - 5%, USD - 9%, EUR - 9%; 2015: UAH - 6%, USD - 11%, EUR - 8%)	67	51	1,535	1,145	241	3,288
Due to banks and financial institutions	-	-	-	-	-	1,641
Subordinated debt (contractual interest rate: 2016: USD - 11%, EUR - 6%; 2015: USD - 6%)	-	-	-	-	-	2,251
Other financial liabilities	-	-	-	-	-	3

The income and expense items with related parties for the period from 1 January to 19 December 2016 and for the year ended 2015 are as follows:

	For the period ended 19 December 2016			For the year ended 31 December 2015		
In millions of Ukrainian hryvnias	Major share - holders	Manage- ment	Companies under control of major shareholders	Major share - holders	Manage- ment	Companies under control of major shareholders
Interest income	-	-	4,881	-	-	3,403
Interest expense	(84)	(50)	(373)	(90)	(64)	(704)
Provision for impairment of loans and advances to customers	-	-	2,657	-	-	(285)
Fee and commission income	-	-	44	-	-	52
Losses less gains from financial derivatives	-	-	4,437	-	-	2,574
Foreign exchange translation (losses less gains)/gains less losses	-	(1)	1,345	-	-	7,285
Other operating income	-	-	12	-	-	14
Administrative and other operating expenses, excluding management remuneration	-	-	(4)	-	-	(102)

At 19 December 2016 and 31 December 2015, other rights and obligations with related parties are as follows:

	19 December 2016	31 December 2015
In millions of Ukrainian hryvnias	Companies under control of major shareholders	Companies under control of major shareholders
Guarantees issued	52	49
Irrevocable commitments to extend credit	-	17
Import letters of credit	-	5
Total credit related commitments and financial guarantees	52	71

30 Related Party Transactions Before the Change of the Group 's Owners (Continued)

Aggregate amounts lent to and repaid by related parties during the period from 1 January to 19 December 2016 and for the year ended 2015 are as follows:

	For the period ended 19 December 2016			For the year ended 31 December 2015		
In millions of Ukrainian hryvnias	Major share-holders	Manage-ment	Companies under control of major shareholders	Major share-holders	Manage-ment	Companies under control of major shareholders
Amounts lent to related parties during the period	-	35	10,346	-	25	9,758
Amounts repaid by related parties during the period	-	35	49,437	-	25	12,118

For the period ended 19 December 2016, the remuneration of the members of the former Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 18 million (for the year ended 31 December 2015: UAH 18 million), including contributions into the State pension fund of UAH 1 million (for the year ended 31 December 2015: UAH 1 million).

31 Related Party Transactions After the Change of the Group's Owners

Parties are generally considered to be related if the parties are under common control, joint control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. In the note disclosed only the material amount.

This Note 31 includes only transactions and balances with related parties after the change in the Group's ownership and thus related parties. Transactions and balances with related parties after the change comprise primarily of transactions with Ukrainian government-related entities (both directly and indirectly controlled by and under significant influence of the Government) and the Shareholder.

At 31 December 2016, the outstanding balances with related parties are as follows:

In millions of Ukrainian hryvnias	Shareholder	Manage-ment	Associated companies	Entities under common control
Cash and cash equivalents and mandatory reserves	-	-	170	6,008
Due from banks	-	-	2	-
Loans and advances to customers (contractual interest rate: 2016: UAH - 15%, USD - 12%)	-	-	-	365
Investment securities available-for-sale	64,409	-	-	-
Embedded derivative assets	27,044	-	-	-
Investment in associates	-	-	507	-
Other financial assets	-	-	-	2
Other assets	-	-	53	-
Due to the NBU	-	-	-	18,047
Due to banks and financial institutions	-	-	14	-
Customer accounts (contractual interest rate: 2016: UAH - 3%, USD - 11%, EUR - 9%)	-	87	-	11

This note is prepared in accordance with the requirements of International Financial Reporting Standard (IAS 24) Related Party Disclosure (IAS 24). The criteria for determination of related parties under IAS 24 differ from the criteria relating to identification of related parties under the Regulation No 315 of the National Bank of Ukraine. Accordingly, information regarding balances and transactions with related parties disclosed in the tables above is based on requirements of IAS 24.

31 Related Party Transactions After the Change of the Group's Owners (Continued)

The income and expense items with related parties present the period from 19 December 2016 to 31 December 2016:

	For the period of 19 to 31 December 2016			
In millions of Ukrainian hryvnias	Shareholder	Manage-ment	Associated companies	Companies under control of major Shareholder
Interest income	51	-	20	3
Interest expense	-	(17)	(2)	(396)
Foreign exchange translation (losses less gains)/gains less losses	-	-	(9)	-
Administrative and other operating expenses, excluding management remuneration	-	-	-	(1)

Aggregate amounts lent to and repaid by related parties during the period from 19 to 31 December 2016 are as follows:

In millions of Ukrainian hryvnias	Shareholder	Manage-ment	Associated companies	Companies under control of major Shareholder
Amounts lent to related parties during the period	-	5	-	-
Amounts repaid by related parties during the period	-	5	-	-
Loans repaid to related parties during the period	-	-	-	26,746
Loans lent by related parties during the period	-	-	-	25,000

The remuneration of the members of the current Management Board that were ratified after comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 1 million, including contributions to the State pension fund.