PRIVATBANK GROUP

International Financial Reporting Standards Consolidated financial statements and Independent Auditor's Report

31 December 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PJSC CB PrivatBank:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

During 2015 and 2016 up to the date of this report, the Bank has repossessed collateral to settle certain outstanding loans and advances to customers. As explained in Note 4, as of the date of this report, the management has not completed its assessment of the possible impact of these transactions on the Group's related parties list and the respective disclosure in the consolidated financial statements. As a result, we were unable to obtain sufficient appropriate audit evidence over the completeness in Note 31 of the disclosure of related parties balances and transactions as at 31 December 2015 and for the year then ended. Consequently, we were unable to determine whether any adjustments to the presentation of the balances and transactions with the related parties were necessary.

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Qualified Opinion

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Notes 2, 4, 11 and 32 to these consolidated financial statements, which state that the operations and the regulatory compliance of the Group have been affected and may continue to be affected for the foreseeable future by the continuing political and economic uncertainties in Ukraine. Our opinion is not further qualified in respect of this matter.

LLC AF "PricewaterhouseCoopers (Audit)"

30 June 2016

In millions of Ukrainian hryvnias	Note	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents and mandatory reserves	8	35,609	19,582
Other financial assets at fair value through profit or loss		238	-
Due from other banks	9	3,689	15,585
Loans and advances to customers	10	195,339	161,830
Embedded derivative assets	28, 29	30,673	19,978
Investment securities available-for-sale		2,060	1,262
Investment securities held to maturity		766	648
Current income tax prepayment		102	146
Goodwill		82	61
Premises, leasehold improvements, equipment and intangible assets	12	4,651	4,098
Other financial assets		289	862
Other assets		1,244	914
Non-current assets held for sale (or disposal groups)		192	4,070
TOTAL ASSETS		**274,934**	**229,036**
LIABILITIES			
Due to the NBU	13	27,079	18,357
Due to other banks and other financial institutions	14	4,476	3,279
Customer accounts	15	191,910	152,053
Debt securities in issue	16	9,145	7,987
Embedded derivative liabilities	29	-	10,047
Current income tax liability		-	7
Deferred income tax liability	23	1,012	784
Provisions for liabilities and charges, other financial and non-financial liabilities	17	2,801	2,189
Subordinated debt	18	9,466	5,450
Liabilities directly associated with disposal groups held for sale		-	3,150
TOTAL LIABILITIES		**245,889**	**203,303**
EQUITY			
Share capital	19	21,257	18,101
Share premium	19	23	20
Contributions received for new shares issued but not registered	19	-	1,000
Revaluation reserve for premises		568	588
Revaluation reserve of investment securities available-for-sale		1,493	805
Currency translation reserve		815	672
Retained earnings		4,312	3,909
Net assets attributable to the Bank's owners		**28,468**	**25,095**
Non-controlling interest		**577**	**638**
TOTAL EQUITY		**29,045**	**25,733**
TOTAL LIABILITIES AND EQUITY		**274,934**	**229,036**

Approved for issue and signed on 30 June 2016.

Olexandr V. Dubilet
Chairman of the Board

Lubov I. Korotina
Chief Accountant

In millions of Ukrainian hryvnias	Note	2015	2014
Interest income	20	30,823	25,624
Interest expense	20	(28,857)	(18,366)
Net interest income		**1,966**	**7,258**
Provision for impairment of loans and advances to customers	10	(6,167)	(4,689)
Net interest income after provision for impairment of loans and advances to customers		**(4,201)**	**2,569**
Fee and commission income	21	7,329	4,650
Fee and commission expense	21	(1,703)	(1,092)
Gains less losses from embedded derivatives	29	6,517	6,722
(Losses less gains)/gains less losses from trading in foreign currencies		(1,257)	452
Foreign exchange translation gains less losses/(losses less gains)		2,479	(4,154)
Other operating income		474	324
Other (losses less gains)/gains less losses		(328)	25
Gains from disposal of subsidiary	7	227	601
Administrative and other operating expenses	22	(9,065)	(9,948)
Profit before tax		**472**	**149**
Income tax (expense)/credit	23	(197)	98
Profit		**275**	**247**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- Gains less losses arising during the year		913	540
- Gains less losses reclassified to profit or loss upon disposal of subsidiary		-	(10)
Income tax recorded directly in other comprehensive income	23	(136)	(106)
Exchange differences on translation to presentation currency			
- Differences on translation to presentation currency arising during the year		660	968
- Differences on translation to presentation currency reclassified to profit or loss upon disposal of subsidiary		(254)	(229)
Items that will not be reclassified to profit or loss:			
Revaluation reserve for premises	12	-	500
Income tax recorded directly in other comprehensive income	23	-	(89)
Other comprehensive income		**1,183**	**1,574**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,458**	**1,821**
Profit/(loss) is attributable to			
Owners of the Bank		326	412
Non-controlling interest		(51)	(165)
Profit		**275**	**247**
Total comprehensive income is attributed to:			
Owners of the Bank		1,214	1,422
Non-controlling interest		244	399
Total comprehensive income		**1,458**	**1,821**
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in UAH per share)	19	**4.62**	**6.37**

In millions of Ukrainian hryvnias	Note	Attributable to owners of the Bank: Share capital	Share premium	Contributions received for new shares issued but not registered	Revaluation reserve for premises	Revaluation reserve of investment securities available-for-sale	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2014		**16,352**	**20**	**-**	**562**	**381**	**308**	**4,755**	**22,378**	**446**	**22,824**
Profit/(loss) for the year		-	-	-	-	-	-	412	412	(165)	247
Other comprehensive income		-	-	-	217	424	364	5	1,010	564	1,574
Total other comprehensive (loss)/income for the year		-	-	-	217	424	364	417	1,422	399	1,821
Contributions received for new shares issued but not registered	19	-	-	1,000	-	-	-	-	1,000	-	1,000
Capitalisation of dividends		1,749	-	-	-	-	-	(1,749)	-	-	-
Share grant	31	-	-	-	-	-	-	295	295	-	295
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(158)	-	-	158	-	-	-
Disposal of subsidiary	7	-	-	-	(33)	-	-	33	-	(207)	(207)
Balance at 31 December 2014		**18,101**	**20**	**1,000**	**588**	**805**	**672**	**3,909**	**25,095**	**638**	**25,733**

The notes set out on pages 6 to 93 form an integral part of these consolidated financial statements.

In millions of Ukrainian hryvnias	Note	Attributable to owners of the Bank: Share capital	Share premium	Contributions received for new shares issued but not registered	Revaluation reserve for 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 income		-	-	-	(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**

In millions of Ukrainian hryvnias	Note	2015	2014
Cash flows from operating activities			
Interest received		27,649	24,374
Interest paid		(28,017)	(18,998)
Fees and commissions received		7,329	4,672
Fees and commissions paid		(1,703)	(1,102)
(Expenses paid)/income received from embedded derivatives		(12,197)	2,519
(Expenses paid)/income received from derivatives arising from swap, forward and spot transactions		(293)	46
Cost paid/income received from trading in foreign currencies		(1,257)	458
Other operating income received		504	302
Staff costs paid		(3,612)	(3,990)
Administrative and other operating expenses paid, except for staff costs paid		(4,733)	(3,671)
Income tax paid		(68)	(340)
Cash flow from operating activities before changes in operating assets and liabilities		**(16,398)**	**4,270**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory reserve balances		(57)	4,826
Net increase in other financial assets at fair value through profit or loss		(227)	-
Net decrease in due from other banks		18,683	11,657
Net increase in loans and advances to customers		(6,700)	(17,657)
Net decrease/(increase) in other financial assets		481	(332)
Net (increase)/decrease in other assets		(48)	112
Net decrease in due to the NBU	13	-	(213)
Net increase/(decrease) in due to other banks and other financing institutions		638	(2,870)
Net increase/(decrease) in customer accounts		6,254	(22,342)
Net increase/(decrease) in provisions for liabilities and charges, other financial and non-financial liabilities		454	(190)
Net cash used in operating activities		**3,080**	**(22,739)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(60)	(227)
Proceeds from investment securities available-for-sale		98	740
Acquisition of investment securities held to maturity		(48)	(356)
Proceeds from redemption of investment securities held to maturity		266	365
Proceeds from premises, leasehold improvements and equipment		42	26
Acquisition of premises, leasehold improvements and equipment		(1,148)	(917)
Disposal of subsidiaries, net of disposed cash	7	(863)	(1,675)
Acquisition of non-current assets held for sale		(192)	-
Net cash used in investing activities		**(1,905)**	**(2,044)**
Cash flows from financing activities			
Proceeds from the refinancing loan of the NBU	13	9,700	19,889
Repayment of the refinancing loan to the NBU	13	(1,493)	(4,791)
Issue of ordinary shares	19	2,159	1,000
Proceeds from subordinated debt		1,718	-
Repayment of debt securities issued		(2,132)	(5,975)
Net cash from financing activities		**9,952**	**10,123**
Effect of exchange rate changes on cash and cash equivalents		**3,734**	**8,100**
Net increase/(decrease) in cash and cash equivalents		**14,861**	**(6,560)**
Cash and cash equivalents at the beginning of the year	7, 8	20,461	27,021
Cash and cash equivalents at the end of the year	8	**35,322**	**20,461**

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for PJSC CB PRIVATBANK (the “Bank”) and its subsidiaries (together referred to as the “Group” or “PRIVATBANK GROUP”).

The Bank 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 of 31 December 2015 and 2014 according to the share registers the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as at 31 December 2015 owned directly and indirectly respectively 49.99% (31 December 2014: 45.08%) and 41.59% (31 December 2014: 45.08%) of the outstanding shares and neither of which individually controlled the Bank. The major shareholders of the Bank do not have a contractual agreement on joint control of the Bank.

As of 31 December 2015 composition of the Supervisory Board was as follows:

Chairman of the Supervisory Board:	Mr. V.S. Stelmakh
Members of the Supervisory Board:	Mr. G.B. Bogolyubov
	Mr. I.V. Kolomoyskiy
	Mr. V.I. Lisitskyi
	Mr. A.G. Martynov

As of the date of issuing of the consolidated financial statements composition of the Management Board was as follows:

Chairman of the Management Board:	Mr. A.V. Dubilet
Members of the Management Board:	
General Deputy Chairman of the Management Board:	Mr. Y.P. Pikush
First Deputy Chairmen of the Management Board:	Mr. O.V. Gorohovskiy
	Mr. T.Y. Novikov
	Mr. V.A. Yatsenko
Deputy Chairmen of the Management Board:	Mrs. L.I. Chmona
	Mr. D.A. Dubilet
	Mrs. T.M. Gurieva
	Mr. V.L. Kovalev
	Mr. S.V. Kryzhanovskiy
	Mr. R.M. Neginskiy
	Mrs. L.A. Shmalchenko
	Mr. A.P. Vitiaz
	Mr. V.G. Zavorotniy
Chief Accountant:	Mrs. L.I. Korotina
Head of Financial Monitoring Department:	Mr. I.L. Terekhin

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 2015 and 2014 Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual in case bank liquidation procedure is started.

As of 31 December 2015 the Bank had 30 branches and 2,589 outlets within Ukraine and a branch in Cyprus (31 December 2014: 30 branches, 2,884 outlets in Ukraine and a branch in Cyprus). Additionally, as at 31 December 2015 the Bank had the subsidiary bank in Latvia (31 December 2014: in Latvia, Georgia) and representative office in Kyiv (Ukraine), London (the United Kingdom) and Beijing (China), several consolidated structured entities in Ukraine and the United Kingdom. Representative offices in Beijing (China) is in the closing stages. Consolidated structured entities in the United Kingdom are used for issue of Eurobonds and Mortgage bonds. Please refer to Note 16.

1 Introduction (Continued)

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

Name	Nature of business	Country of registration	Percentage of ownership 31 December 2015	Percentage of ownership 31 December 2014
JSC PrivatBank	Banking	Georgia	-	57.86%
AS PrivatBank	Banking	Latvia	50.02%	50.02%

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 Bank's registered address as at the date of these consolidated financial statements is:

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

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

2 Operating Environment of the Group

Starting in late 2013 the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to a deterioration of the State's finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies. The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The National Bank of Ukraine, among other measures, imposed certain restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market.

The political situation in 2014 has also been volatile, with changes in the Ukrainian Parliament and the Presidency. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. The Russian Federation, Mongolia, Syria, Kazakhstan are the only countries that recognised the referendum and the annexation. This event resulted in significant deterioration of relationships between Ukraine and the Russian Federation. Starting from March 2014, the Group was unable to conduct its operations in the Crimea. Refer to Note 4.

The political situation in Eastern Ukraine also deteriorated in 2014 resulting in armed conflict and military activity in some parts of Donetsk and Lugansk regions. The armed conflict in the region has put further pressure on relations between Ukraine and the Russian Federation. Escalating political tensions have had an adverse effect on Ukrainian financial markets, resulting in a hampering of ability of Ukrainian companies and banks to obtain funding from the international and capital and loan markets. This has contributed to further significant devaluation of Hryvnya against major foreign currencies.

As of the date of this report, the official NBU exchange rate of Hryvnia against US dollar was UAH 24.85 per USD 1 compared to UAH 24.00 per USD 1 as at 31 December 2015. Borrowers of the Group may be adversely affected by the deteriorated financial and economic environment, including devaluation of the Ukrainian Hryvnia in January 2014 – December 2015. As a certain part of loans to customers were issued in foreign currencies, UAH depreciation against these currencies could have a significant impact on borrowers' ability to service the loans. Management tests loans for impairment with due consideration of the above risk factors.

During 2015, the economic situation in Ukraine continued to be negative. This economic downturn is primarily attributed to the rapid fall of the Ukrainian national currency against the US dollar, which had an adverse impact on the financial sector. The Ukrainian economy is also impacted by trade disagreements with Russia, and the decline in the export prices for wheat and steel in the world.

2 Operating Environment of the Group (Continued)

In February 2015, the second Minsk Protocol was signed and since then vast military operations have not been observed; however, there are frequent reports of provocations, which makes it difficult to forecast the outcome of the political and economic crisis and its impact on Ukraine.

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further severe effects on the Ukrainian economy and the Group's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with the 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 Bank 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 Group holds less than 50% of voting rights in four fully consolidated entities. The Group has the power to direct relevant activities of these entities that significantly affects their returns and ability to use it through contractual arrangements with other shareholders. The Group retains a significant beneficial interest in their activities which are predominantly financed by the Group, as, in substance, the Group has rights to obtain the majority of the variable returns of the structured entities and therefore may be exposed to risks incident to the activities of these structured entities.

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

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

3 Summary of Significant Accounting Policies (Continued)

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 Bank. 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.

3 Summary of Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at 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.

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 other 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 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 other banks. Amounts due from other 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 other 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 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 terms, the new asset is initially recognised at its fair value.

3 Summary of Significant Accounting Policies (Continued)

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.

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

3 Summary of Significant Accounting Policies (Continued)

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 straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of 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.

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.

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

3 Summary of Significant Accounting Policies (Continued)

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 for 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 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 provision for 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 less accumulated depreciation and impairment losses, if any.

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

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

3 Summary of Significant Accounting Policies (Continued)

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.

Assets held for sale. Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. These measurement provisions do not apply to financial assets in the scope of IAS 39.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

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 for the period on a straight-line basis over the period of the lease.

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

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.

Due to other banks and other financing institutions. Amounts due to other banks and other financing 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 Eurobonds and 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 financial liabilities 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. As disclosed in Note 4 in 2014 the Group made provision for liabilities related to Crimean operations. 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.

Share grant. The Group's major shareholders operate a share-based compensation plan for management of the Group. The fair value of the managers' services received in exchange for the share grant is recognised as an expense with corresponding increase in equity. If no vesting conditions are introduced, shares vest immediately.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of reporting period and before the consolidated financial statements is authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the retained earnings.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 Bank, 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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

	31 December 2015, UAH	Average 2015, UAH	31 December 2014, UAH	Average 2014, UAH
1 US Dollar (USD)	24.000667	21.821706	15.768556	11.873948
1 Euro (EUR)	26.223129	24.200490	19.232908	15.683281
1 Russian Ruble (RUB)	0.329310	0.361726	0.303040	0.309725
1 Georgian Lari (GEL)	9.956796	9.483173	8.150089	6.544734

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 Bank by the weighted average number of participating shares outstanding during the reporting period.

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 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.

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. The Bank's subsidiary in Latvia, AS PrivatBank, was reviewed in December 2015 by the Financial and Capital Market Commission of Latvia (FCMC), which identified violations of the Law On the Prevention on Money Laundering and Terrorism Financing, Credit Institution Law, the Legislation on Establishment of the Internal Control Framework and the Regulations for Enhanced Customer Due Diligence. It has been revealed in the course of the review that several Latvian banks, including AS Privatbank, were made involved in a serious suspicious transactions by its Moldavian clients (so called "Moldovan case"). After the case with the banks in Moldova, FCMC carried out the review of all banks servicing non-residents in Latvia, including AS PrivatBank. As a result, in December 2015 the FCMC imposed a fine of EUR 2 million and requested dismissal of Management Board of AS PrivatBank. Sanctions applied to AS PrivatBank did not affect its daily operations; AS PrivatBank continue to meet its obligations to customers and render banking services in the normal course of business. AS PrivatBank paid the full amount of the fine and appointed new members and the Chairman of the Board. The Bank developed an action plan for control over efficiency in the implementation of the AML policy and internal control, which was agreed by the FCMC. The plan envisages a number of activities to be carried out by the end of 2016, including the review of the Bank's internal processes and procedures, strengthening of employee training program, revision of the customer base, and conducting of external audits in the AML area.

On 6 May 2016, AS PrivatBank has signed an administrative settlement agreement with FCMC, according to which AS PrivatBank revoked claims made against previous FCMC decisions and in turn, FCMC closed the administrative process initiated against subsidiary and confirmed not to impose any further sanctions, provided that AS PrivatBank will execute the action plan on AML control improvement agreed with FCMC. AS PrivatBank also is developing a new strategy that aims to be sustainable in a long-term perspective focusing on improvement of AML procedures. As at the date of these consolidated financial statements, AS PrivatBank is collaborating with the FCMC to take all measures necessary and ensure future compliance with the regulator's requirements and the industry best practices.

In 2015, the Bank's branch in Cyprus has not been in compliance with certain liquidity ratios set up by the Central Bank of Cyprus (CBC). As of the date of these consolidated financial statements, non-compliance did not threaten timeliness of customers' payments timely and had not affect the Cyprus Branch's operations. The breach took place due to the temporary restrictions caused by the NBU resolution on the prohibition of money transferring from the Head Office to Cyprus Branch. As of the date of these consolidated financial statements Cyprus Branch complies with all statutory ratios. The measures agreed with CBC for the improvement of the liquidity position included transfer of liquid funds from the Head Office to Cyprus Branch, placement of interbank balances with A-rated banks, and decrease of the loan portfolio of the Cyprus Branch. In response to this, in 2016, the Group decreased its credit risk exposure in Cyprus by negotiating repayment of some loans and obtaining additional hard collateral from the borrowers.

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

Due to significant further UAH devaluation in 2015 against major hard currencies (refer to Note 2), overall lack of trust to the banking system in Ukraine resulting in outflow on customers' accounts in 2015 and preference of keeping money in short-term accounts rather than in long-term deposits, continuous negotiation with the NBU regarding the restructuring of expensive refinancing loans, significant part of which was overdue based on contractual terms being in force at the year-end (refer to Note 15), and prolongation of loans and advance to borrowers to a later periods resulted in a short-term liquidity gap up to one month of UAH 27,414 million and accumulative liquidity gap of up to one year of UAH 11,190 million (refer to Note 25). In accordance with the NBU regulation No.363 issued on 9 June 2015, Ukrainian banks were allowed to initiate the restructuring of refinancing loans received from the NBU, provided the bank's application for the restructuring will be supported by the detailed plan of the financial rehabilitation. In such case, the refinancing loan maturity term can be postponed to June 2020, with gradual repayments starting from the second year. In July 2015, the Bank applied to the NBU with developed Plan of Financial Rehabilitation, which included commitment to increase the share capital, gradual compliance with the regulatory norms of liquidity, regulatory capital and matching of assets and liabilities by maturity terms. The Bank is in the process of preparation and submission of documents required by the NBU for restructuring of the NBU refinancing loans. In a meantime, the Bank fully adheres schedule of principal and interest repayment of refinancing loans, as later disclosed in this Note.

During 2015 and in 2016 up to the date of these consolidated financial statements, the Bank was not in compliance with certain prudential ratios. On 24 February 2015, the NBU issued the regulation No.129 "On certain issues of the Banks' activities", stating that no regulatory measured will be imposed by the NBU for non-compliance by all Ukrainian banks with certain ratios and requirements, including those breached by the Bank, provided the non-compliance was caused by losses incurred as a result of the negative impact of operating environment in Ukraine. Compliance with the NBU requirements and norms is one of other debt covenants, however no early repayment or other sanctions are envisaged by the terms of these debts in the case of the breach. Refer to Note 26.

In 2015, the NBU identified a few instances of non-compliance with conditions of refinancing loans from the NBU. However, the NBU did not settled unilateral the amount of outstanding refinancing loan from its correspondent account and haven't applied any measures as at 31 December 2015 and subsequently in 2016. There is uncertainty whether such measures won't be taken by the NBU in the future.

As a result of further negotiations held by the Bank with the NBU about restructuring of refinancing loans, in February and March 2016 the NBU has approved new Restructuring Plan and its amendment, according to which the Bank was required to further increase the share capital, repossess collateral by 1 April 2016, gradually decrease a share of loans issued to related parties and insiders of the Bank, obtain additional collateral for significant part of loans by 1 September 2016, gradually repay overdue principal and interest on the NBU refinancing loans by August 2017 and provide additional collateral for the NBU's refinancing loans in the form required by the NBU. This plan also contains a number of limitations on the Bank's operations.

Following the approval of the Restructuring Plan the Bank actively commenced taking appropriate measures aimed at fulfilment of the Plan:

a) as at the date of these consolidated financial statements, the Bank obtained a legal title for the required amount of collateral of UAH 31,845 million under the Plan and accounted for it in its consolidated balance sheet as repossessed collateral. However, due to long and complex legal procedure of collateral repossession in Ukraine and necessity of obtaining the NBU's permission for repossession of certain assets, which were already pledged in favour of the NBU for refinancing loans, the Bank was able to repossess the required part of collateral by early June rather than by 1 April 2016 as was stipulated by the Restructuring Plan. The NBU has not applied any regulatory measures for late repossession of collateral by the date of these consolidated financial statements;
b) during January-June 2016 the Bank repaid on time all interest due on refinancing loans from the NBU and principal according to the agreed schedule in total amount of UAH 5,640 million (refer to Note 32);
c) one of the Bank's shareholders, Mr. I.V. Kolomoysky, provided his personal guarantee confirming the Bank's ability to follow the Restructuring Plan.

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

Management has also prepared monthly forecasted balances and results for periods throughout 2016 and the first six months of 2017. Judgements with regard to further UAH devaluation, sustainability of customers' balances, level of inflation in Ukraine, reduced tensions in the East of Ukraine, financial ability of borrowers to repay their loans and respective derivative amounts as they fall due, ability to negotiate additional collateral for the loans issues to the Bank's borrowers, willingness of the NBU not to demand immediate repayment of refinancing loans were required for the preparation of the forecasted balances and results. Repayment of the refinancing loans according to the schedule approved by the Restructuring Plan is included in these forecasted balances and results. Further support and maintaining a constructive dialogue with the NBU, CBC and FCMC significantly contributes to the Bank's going concern assessment.

Management believes that given all the actions they are taking, as described above, the Group will be able throughout at least next 12 months to follow the Restructuring Plan, comply with the regulatory requirements of the countries where the Group operates, sustain its customer base and manage its liquidity gap. As such, management considers application of going concern assumption for the preparation of these consolidated financial statements is appropriate.

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. Judgement is also applied to determine whether the counterparty is a related party or not, including transactions with those entities where the major shareholders of the Bank individually or together directly or through intermediaries beneficially can exercise significant influence or control.

As a response to the NBU's requirement on improvement of credit quality of the Bank's assets, the Bank repossessed collateral to settle certain outstanding loans and advances to customers. In addition, the Bank's major shareholders, aiming to support the Bank's compliance with the regulatory requirements, contributed their own assets in the form of repossessed collateral to partially or fully settle loans issued to related and third parties. Negotiations on collateral repossession with the Bank's borrowers and the major shareholders commenced in 2015 and were generally completed by the end of June 2016, when the Bank became the owner of the respective assets and recognised them at the fair value of approximately UAH 31,845 million in its balance sheet as repossessed collateral. The Bank plans to lease out the majority of these assets under the operating leases to their previous owners as some of those assets are an integral part of larger businesses. Judgement is required (a) to determine whether such transactions mean that either the bank or its significant shareholders had a significant influence or control over the bank's borrowers, whose assets are now partially owned by the Bank or whose loans were partially settled by the Bank's major shareholders, and (b) to determine timing from when such parties became related parties of the bank. Management of the Bank has not yet completed its assessment of the impact that these transactions had on its related party list and the respective disclosure in these financial statements.

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

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 627 million or UAH 841 million (2014: increase or decrease in loan impairment losses of UAH 492 million or UAH 599 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 1,418 million or UAH 1,650 million (2014: increase or decrease in loan impairment losses of UAH 1,259 million or UAH 1,547 million), respectively.

Assessment of loans and advances issued to a group of borrowers-oil traders for impairment. The Group regularly reviews its outstanding loans and advances issued to the oil traders which are engaged in wholesale and retail sale of petrol, oil and oil products. As of 31 December 2015 gross amount of such loans was UAH 40,645 million (31 December 2014: UAH 40,603 million). In determining whether an impairment loss should be recorded in profit or loss, 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 issued to oil traders 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 the oil traders group or regulatory environment, industry or national economic conditions that correlate with defaults on assets in the oil traders 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 issued to oil traders. As of 31 December 2015 the loans issued to oil traders were not impaired. Please refer to Notes 10 and 29.

Fair value of embedded derivative assets. 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 independent of the area that created them. To the extent practical, only observable data are used in models, however areas such as credit risk (both own and counterparty), volatilities and correlations require management estimates. The fair value of collateral substantially contributes to the assessment of a credit risk of a borrower. Changes in assumptions about these factors could affect reported fair values.

Starting from December 2015, the banks in Ukraine were required to apply IFRS in local accounts used for daily reporting to the National Bank of Ukraine and for regulatory purposes. At the same time, the local regulatory requirements on methodology of accounting of the embedded derivatives are subject to further clarification in course of transition to IFRS in local accounts.

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

As of 31 December 2015 the Bank had loans and advances to customers totalling UAH 91,318 million (31 December 2014: UAH 87,679 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD, part of them in amount UAH 62,574 million with yield limit. The contract to receive compensation was accounted for by the Bank as an embedded derivative assets with the fair value of UAH 30,673 million as at 31 December 2015 (31 December 2014: UAH 19,978 million) estimated using a valuation technique. This discounted cash flow valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different financial result. The major part of loan agreements matures from 2016 to 2019, inclusive. If the expected UAH/USD exchange rate for these years would be higher by 10% or lower by 5%, the fair value of the derivative and the respective consolidated statement of profit or loss and other comprehensive income amount would increase by UAH 2,363 million and decrease by UAH 440 million (2014: higher by 50% or lower by 5%; increase by UAH 19,941 million and decrease by UAH 1,275 million). In preparation of sensitivity analysis of fair value of derivative to the changes in UAH/USD exchange rate management takes into account credit risk of the borrowers. If the discount rate used for fair valuation of the derivatives as at 31 December 2015 would be higher/lower by 100 basis points, the fair value of the derivative and the respective consolidated statement of profit or loss and other comprehensive income amount would decrease/increase by UAH 67 million (2014: UAH 171 million). Refer to Note 28. Analysis of deviation of sensitivity of fair value of a derivative is prepared for each estimate separately not taking into account changes in other estimates.

Provision associated with Crimea liabilities. As described in Note 27 the Group has recognised a provision of UAH 700 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. Recognising the provision management made significant judgements by estimating the level of complaints, ability of plaintiff to present documents supporting deposits placement, enforceability of various courts decisions in Ukraine, related administrative and legal costs estimations. If the level of complaints had been 10% higher/(lower) and winning rate was 10% higher/(lower) than estimated then the provision as at 31 December 2015 would have been increased/(decreased) by approximately UAH 147 million (2014: UAH 82 million).

Accounting for assets and liabilities associated with operations in the Donetsk and Lugansk regions. As at 31 December 2015, the Group has 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. These consolidated financial statements reflect management's assessment of the recoverability of assets located in the Donetsk and Lugansk regions. The final outcome may differ from the management's assessment. Please refer to Notes 10 and 12 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. Premises of the Group are stated at fair value based on the reports prepared by a valuation company using sales comparison approach. At the date of revaluation accumulated depreciation was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. 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 of 31 December 2014 the Bank had the valuation based on the comparative sales of premises with the price per square meter varying from 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 188 million higher or lower respectively. As of 31 December 2015 management assessed the impact of changes in market prices on the fair value of premises as immaterial for these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group:

- Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 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 loan impairment provisions. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative – Amendments to IAS 7 (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.

6 New Accounting Pronouncements (Continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 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.

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.

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.

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

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- 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).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning 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).
- Recognition of Deferred Tax Asset for Unrealised Losses – Amendment to IAS 12 (issued in 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).

7 Disposal of Subsidiary

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 the 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 comprises:

In millions of Ukrainian hryvnias	**Gain on disposal of subsidiary**
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**

The portion of the loss on disposal of the subsidiary attributable to measuring the investment retained in the former subsidiary at fair value at the date when control was lost amounts to UAH 12 million.

7 Disposal of Subsidiary (Continued)

In April 2014, the Group concluded the agreement on total sale of CJB CB "Moscomprivatbank". The details of disposed assets and liabilities and disposal consideration are as follows:

In millions of Ukrainian hryvnias	**April 2014**
Cash and cash equivalents	2,208
Loans and advances to customers	5,716
Available for sale financial assets	255
Premises, leasehold improvements, equipment and intangible assets	302
Other assets	534
Customer accounts	(7,289)
Other liabilities	(732)
Net assets of subsidiary	**994**
Less: non-controlling interest	(207)
Carrying amount of disposed net assets	**787**
Total disposal consideration	**1,149**
Less: fair value of receivable arising on disposal	(543)
Less: cash and cash equivalents in disposed subsidiary	(2,208)
Cash outflow on disposal	**(1,602)**

The gain on disposal of the subsidiary comprises:

In millions of Ukrainian hryvnias	**Gain on disposal of subsidiary**
Consideration for disposal of the subsidiary	1,149
Carrying amount of disposed net assets, net of non-controlling interest	(787)
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	229
Revaluation reserve for available-for-sale financial assets recycled from other comprehensive income to profit or loss upon disposal	10
Gain on disposal of subsidiary	**601**

Loss of disposed subsidiary for the period until the date when control was lost amounts to UAH 194 million. Please refer to Note 22.

8 Cash and Cash Equivalents and Mandatory Reserves

In millions of Ukrainian hryvnias	**31 December 2015**	**31 December 2014**
Cash on hand	12,050	8,243
Cash balances with the Central Bank of Latvia	4,793	1,403
Cash balances with the NBU	3,766	231
Cash balances with the Central Bank of Cyprus	168	147
Correspondent accounts and overnight placements with other banks		
- Countries other than Ukraine	14,832	9,558
Total cash and cash equivalents and mandatory reserves	**35,609**	**19,582**

8 Cash and Cash Equivalents and Mandatory Reserves (Continued)

In accordance with the NBU regulation, the Bank should maintain its mandatory reserve balance at the level of 3 to 6.5 percent (31 December 2014: 3 to 6.5 percent) of its certain obligations. As at 1 January 2016, the Bank had to be compliant with the required level of mandatory reserve balance of UAH 6,199 million. According to the NBU regulation "On Changing the Order of Mandatory Reserve Calculation and Maintenance" dated 18 December 2014 (with changes made by the NBU on 29 October 2015) banks may satisfy its mandatory reserve requirements with balances on correspondent account with the NBU and/or cash balances in cash desks and ATMs in amount not exceeding 75% (31 December 2014: 50%), balances on correspondent account with PJSC "Payment center on servicing of financial market contracts" in amount of 100% (31 December 2014: 100%). Thus, mandatory reserve balance requirement is adhered by the Bank based on sufficient cash balances as at the reporting date.

As of 31 December 2015 the mandatory reserve balances of the Bank's subsidiary in Latvia and branch in Cyprus kept with respective central banks amount in total to UAH 287 million (31 December 2014: Latvia and Cyprus; UAH 232 million).

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, the mandatory reserve balance is excluded from cash and cash equivalents of UAH 287 million, that is 100% of the mandatory reserve balance with the NBU and 100% of the mandatory reserve balance with other central banks (31 December 2014: UAH 232 million).

In millions of Ukrainian hryvnias	**31 December 2015**	**31 December 2014**
Total cash and cash equivalents and mandatory reserves	35,609	19,582
Less mandatory reserves balances	(287)	(232)
Cash and cash equivalents for the purposes of the consolidated statement of cash flows	**35,322**	**19,350**

As of 31 December 2014 cash and cash equivalents for the purposes of the consolidated statements of cash flows in Georgia was UAH 1,111 million.

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 as follows:

In millions of Ukrainian hryvnias	**31 December 2015**	**31 December 2014**
Non-cash operating activities		
Other assets	(281)	(538)
Recognition of finance lease receivables	281	538
Non-cash financing activities		
Dividends	-	(1,749)
Increase in share capital	-	1,749
Non-cash operating and financing activities	**-**	**-**

As of 31 December 2015 UAH 1,294 million of mandatory reserve balances with the NBU (31 December 2014: UAH 1,294 million) has been pledged as collateral for the refinancing loan received from the NBU. Refer to Notes 13 and 27.

As of 31 December 2015 the Group had balances on correspondent accounts and overnight placements with 2 banks rated from A1 to Baa1 (31 December 2014: 2 banks rated from A3 to Baa2) in excess of 10% of the Group's net assets or UAH 2,905 million (31 December 2014: UAH 2,573 million). The total aggregate amount of these balances was UAH 11,402 million (31 December 2014: 6,115 million).

8 Cash and Cash Equivalents and Mandatory Reserves (Continued)

The credit ratings as at 31 December 2015 are based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale:

In millions of Ukrainian hryvnias	**Cash on hand**	**Cash balances with central banks, incl. mandatory reserves**	**Correspondent accounts and overnight placements with other 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**

The credit ratings as at 31 December 2014 are based on Moody's ratings where available, or other rating agencies converted to the nearest equivalent on Moody's rating scale:

In millions of Ukrainian hryvnias	**Cash on hand**	**Cash balances with central banks, incl. mandatory reserves**	**Correspondent accounts and overnight placements with other banks**	**Total**
Neither past due nor impaired				
Cash on hand	8,243	-	-	8,243
Cash balances with the central banks	-	1,781	-	1,781
Aa1 to Aa3 rated	-	-	1,239	1,239
A1 to A3 rated	-	-	3,848	3,848
Baa1 to Baa3 rated	-	-	4,055	4,055
Ba1 to Ba3 rated	-	-	13	13
B1 to B3 rated	-	-	207	207
Unrated	-	-	196	196
Total cash and cash equivalents and mandatory reserves	**8,243**	**1,781**	**9,558**	**19,582**

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

9 Due from Other Banks

In millions of Ukrainian hryvnias	**31 December 2015**	**31 December 2014**
Guarantee deposits with other banks	3,429	13,083
Placements with other banks	260	2,502
Total due from other banks	**3,689**	**15,585**

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

9 Due from Other Banks (Continued)

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

In millions of Ukrainian hryvnias	Placements with other banks	Guarantee deposits with other 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 other banks	**260**	**3,429**	**3,689**

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

In millions of Ukrainian hryvnias	Placements with other banks	Guarantee deposits with other banks	Total
Neither past due nor impaired			
- Aa2 to Aa3 rated	-	263	263
- A1 to A3 rated	2,009	573	2,582
- Ba2 rated	-	12,062	12,062
- Baa1 rated	-	183	183
- B1 to B3 rated	269	2	271
- Caa1 rated	193	-	193
- Ca rated	31	-	31
Total due from other banks	**2,502**	**13,083**	**15,585**

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.

As an active participant in the banking markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk gross exposure to financial institutions is of UAH 24,352 million (2014: UAH 56,282 million) comprising cash and cash equivalents, due from other banks and gross receivables on financial derivatives arising on swap, forward and spot transactions. Refer to Notes 8 and 27.

Refer to Note 29 for the estimated fair value of each class of amounts due from other banks. Geographical, maturity and interest rate analysis of due from other banks is disclosed in Note 25.

10 Loans and Advances to Customers

In millions of Ukrainian hryvnias	31 December 2015	31 December 2014
Corporate loans	188,764	150,923
Loans to individuals - cards	20,919	22,117
Loans to individuals - mortgage	9,363	6,194
Loans to individuals - auto	503	349
Loans to individuals - consumer	91	174
Loans to individuals - other	1,648	1,141
Loans to small and medium enterprises (SME)	2,252	2,075
Finance lease receivables due from individuals	264	410
Finance lease receivables due from corporate customers	329	252
Total loans and advances to customers, gross	**224,133**	**183,635**
Less: Provision for loan impairment	(28,794)	(21,805)
Total loans and advances to customers	**195,339**	**161,830**

As of 31 December 2015 interest income of UAH 8,404 million (31 December 2014: UAH 3,122 million) was accrued on impaired loans and advances to customers.

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

	Corpo-rate	Loans to individuals					SME	Finance lease	Total
In millions of Ukrainian hryvnias	loans	Cards	Mortgage	Auto	Consumer	Other		receivables	
Provision for loan impairment at 1 January 2015	**16,303**	**2,763**	**1,707**	**106**	**43**	**157**	**621**	**105**	**21,805**
Provision for impairment during the period	4,988	117	1,458	122	29	500	307	(33)	7,488
Amounts written off during the period as uncollectible	(820)	(14)	(78)	(2)	(7)	(21)	(12)	-	(954)
Currency translation differences	378	1	74	1	-	-	1	-	455
Provision for loan impairment at 31 December 2015	**20,849**	**2,867**	**3,161**	**227**	**65**	**636**	**917**	**72**	**28,794**

The provision for impairment during 2015 differs from the amount presented in profit or loss for the period due to UAH 1,321 million recovery of amounts previously written off as uncollectible, including UAH 783 million, UAH 188 million and UAH 122 million relating to recoveries of corporate loans, mortgage loans and loans to small and medium enterprises, respectively. The amount of the recovery was credited directly to provisions in profit or loss for the period.

10 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Finance lease receivables	Total
Provision for loan impairment at 1 January 2014	**18,914**	**967**	**949**	**84**	**27**	**141**	**236**	**22**	**21,340**
Provision for impairment during the period	1,484	2,790	915	92	100	93	543	83	6,100
Amounts written off during the period as uncollectible	(4,311)	(432)	(252)	(69)	(76)	(43)	(154)	-	(5,337)
Currency translation differences	303	99	95	1	8	2	(2)	-	506
Disposal of subsidiary	(87)	(661)	-	(2)	(16)	(36)	(2)	-	(804)
Provision for loan impairment at 31 December 2014	**16,303**	**2,763**	**1,707**	**106**	**43**	**157**	**621**	**105**	**21,805**

The provision for impairment during 2014 differs from the amount presented in profit or loss for the period due to UAH 1,411 million recovery of amounts previously written off as uncollectible, including UAH 808 million, UAH 84 million and UAH 75 million relating to recoveries of card loans, corporate loans and loans to small and medium enterprises, respectively. The amount of the recovery was credited directly to provisions in profit or loss for the period.

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

	31 December 2015		31 December 2014	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Oil trading	40,645	18	40,603	22
Loans to individuals	32,788	15	30,385	17
Ferroalloy trading and production	32,527	15	24,816	14
Agriculture, agriculture machinery and food industry	29,522	13	21,915	12
Manufacturing and chemicals	27,953	12	21,439	12
Commerce, finance and securities trading	21,596	10	13,207	7
Air transportation	14,136	6	9,411	5
Ski resort, tourism and football clubs	8,340	4	6,791	4
Real estate construction	7,919	3	6,717	4
Small and medium enterprises (SME)	2,252	1	2,075	1
Other	6,455	3	6,276	2
Total loans and advances to customers, gross	**224,133**	**100**	**183,635**	**100**

Disclosed in oil trading industry are UAH 40,645 million or 18% of gross loans and advances (2014: UAH 40,603 million or 22%) issued to companies engaged in wholesale and retail sale of oil and oil products. These companies form an entire supply chain and due to it, based on the management estimation, the credit risk of these loans is lower. As at 31 December 2015 loans issued to these companies were collateralised with inventory of crude oil, oil and gas products and corporate rights for shares of borrowers and their guarantors with the collateral value of UAH 52,245 million (2014: UAH 39,671 million and in January 2015 subsequently to the year end - collateralised with additional inventory of oil and gas products in the amounts of UAH 852 million).

10 Loans and Advances to Customers (Continued)

Disclosed in manufacturing and chemical industry are UAH 23,423 million of gross loans and advances to customers (2014: UAH 17,246 million) issued to companies in Ukraine combined in the structure that produce and sell various products in Western, Central and Eastern European markets. Consumers of the products are companies operating in the food processing industry in these markets. As at 31 December 2015 loans issued to these customers were collateralised by the corporate rights for shares with the collateral value of UAH 30,385 million (2014: UAH 18,673 million).

As of 31 December 2015 the gross aggregate amount of loans to top 10 borrowers of the Group amounted to UAH 54,562 million (31 December 2014: UAH 34,402 million) or 24% of the gross loan portfolio (31 December 2014: 19%). Provision for loan impairment relating to these borrowers is UAH 4,850 million (31 December 2014: UAH 4,455 million).

As of 31 December 2015 the Group had 7 borrowers (31 December 2014: 6 borrowers) with aggregate loan balances in excess of 10% of the Group's net assets or UAH 2,905 million (31 December 2014: UAH 2,573 million). The gross aggregate amount of these loans was UAH 47,400 million (31 December 2014: UAH 27,268 million); provision for loan impairment relating to these borrowers amounted to UAH 2,567 million (2014: UAH 3,125 million).

As of 31 December 2015 mortgage loans of UAH 402 million (31 December 2014: UAH 256 million) have been pledged as collateral with respect to the mortgage bonds issued. Please refer to Notes 16 and 27.

As of 31 December 2015 loans issued to ninety one corporate borrowers of gross value of UAH 43,725 million were pledged as a collateral under the NBU refinancing loans (31 December 2014: one hundred and eleven corporate borrowers of gross value of UAH 49,231 million). Please refer to Notes 13 and 27.

As of 31 December 2015 loans issued to 27 corporate borrowers of gross value of UAH 21,338 million were partially collateralised by the same collateral as the NBU refinancing loans by the collateral value of UAH 16,739 million.

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)
Impairment loss provision	(37)	(35)	-	(72)
Present value of lease payments receivables as at 31 December 2015	**227**	**292**	**2**	**521**

Finance lease receivables (gross investment in the leases) and their present values at 31 December 2014 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 2014	**334**	**542**	**4**	**880**
Unearned finance income	(64)	(152)	(2)	(218)
Impairment loss provision	(2)	(103)	-	(105)
Present value of lease payments receivables as at 31 December 2014	**268**	**287**	**2**	**557**

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 receivables	Total
Neither past due nor impaired									
- Large borrowers with credit history with the Group over 2 years	72,333	-	-	-	-	602	-	2	72,937
- 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	-	18,276	1,089	231	20	447	-	188	20,251
Total neither past due nor impaired (gross)	**106,083**	**18,300**	**1,360**	**231**	**20**	**1,082**	**553**	**394**	**128,023**
Past due but not impaired									
- less than 30 days overdue	203	552	151	17	2	35	34	43	1,037
- 31 to 90 days overdue	2,438	208	78	4	1	23	166	10	2,928
- over 91 days overdue	1,708	-	15	1	-	-	-	-	1,724
Total past due but not impaired (gross)	**4,349**	**760**	**244**	**22**	**3**	**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	179	90	3	2	48	29	11	5,192
- 181 to 360 days overdue	4,804	393	421	9	6	109	72	5	5,819
- over 361 days overdue	4,151	1,287	7,185	234	60	338	1,397	55	14,707
Total individually impaired loans (gross)	**78,332**	**1,859**	**7,759**	**250**	**68**	**508**	**1,499**	**146**	**90,421**
Less impairment provisions	(20,849)	(2,867)	(3,161)	(227)	(65)	(636)	(917)	(72)	(28,794)
Total loans and advances to customers	**167,915**	**18,052**	**6,202**	**276**	**26**	**1,012**	**1,335**	**521**	**195,339**

10 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals					SME	Finance lease recei-vables	Total
		Cards	Mortgage	Auto	Consumer	Other			
Neither past due nor impaired									
- Large borrowers with credit history with the Group over 2 years	75,222	-	-	-	-	536	-	-	75,758
- Large new borrowers with credit history with the Group less than 2 years	13,357	-	-	-	-	-	-	-	13,357
- Loans to medium size borrowers	5,664	-	-	-	-	91	12	-	5,767
- Loans to small borrowers	433	-	-	-	-	-	823	-	1,256
- Loans between UAH 1-100 million	-	16	189	-	-	-	-	104	309
- Loans less than UAH 1 million	-	19,625	1,205	106	81	259	-	346	21,622
Total neither past due nor impaired	**94,676**	**19,641**	**1,394**	**106**	**81**	**886**	**835**	**450**	**118,069**
Past due but not impaired									
- less than 30 days overdue	150	753	300	31	13	30	38	35	1,350
- 31 to 90 days overdue	561	367	181	8	-	15	28	37	1,197
- over 91 days overdue	200	-	-	-	-	-	-	-	200
Total past due but not impaired	**911**	**1,120**	**481**	**39**	**13**	**45**	**66**	**72**	**2,747**
Loans individually determined to be impaired (gross)									
- Not overdue	51,878	-	-	-	-	-	-	76	51,954
- less than 30 days overdue	182	-	-	-	-	-	-	-	182
- 31 to 90 days overdue	511	-	-	-	-	-	-	-	511
- 91 to 180 days overdue	296	512	234	18	24	43	50	33	1,210
- 181 to 360 days overdue	868	753	444	23	26	26	314	18	2,472
- over 361 days overdue	1,601	91	3,641	163	30	141	810	13	6,490
Total individually impaired loans (gross)	**55,336**	**1,356**	**4,319**	**204**	**80**	**210**	**1,174**	**140**	**62,819**
Less impairment provisions	(16,303)	(2,763)	(1,707)	(106)	(43)	(157)	(621)	(105)	(21,805)
Total loans and advances to customers	**134,620**	**19,354**	**4,487**	**243**	**131**	**984**	**1,454**	**557**	**161,830**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement,* and created portfolio provisions 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.

10 Loans and Advances to Customers (Continued)

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. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal, 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 believes 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 SME 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 cards loans, consumer and part of loans to small and medium enterprises in amount of UAH 530 million (31 December 2014: UAH 715 million), issue of which do not require any collateral.

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

The effect of collateral at 31 December 2014:

	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	122,815	187,521	11,805	9,645
Loans to individuals - mortgage	2,845	6,818	1,642	908
Loans to individuals - auto	130	152	113	10
Loans to individuals - other	666	1,406	318	40
Loans to SME	178	436	561	205
Finance lease receivables	551	576	6	2

As at 31 December 2015 loans issued to the borrowers in Ukraine other than those engaged in oil trading and manufacturing and chemical industry of UAH 73,684 million (31 December 2014: UAH 53,339 million) were collateralised with corporate rights for shares of these borrowers and their guarantors with the collateral value of UAH 65,265 million (31 December 2014: UAH 50,075 million). The loans are collateralised with corporate rights for shares of companies domiciled in Ukraine, European Union and CEE; collateral agreements are concluded under the UK law. In addition these loans are collateralised by inventory and other assets.

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.

10 Loans and Advances to Customers (Continued)

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

From July 2014, the National Bank of Ukraine introduced the emergency regime of operation for the banking 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, which further influenced economic downturn of the region and creditworthiness of its citizens. 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.

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 2015	31 December 2014
Loans to individuals - cards	2,229	1,955
Loans to individuals - mortgage	215	133
Loans to individuals - consumer	26	29
Loans to individuals - auto	22	19
Loans to individuals - other	7	6
Loans to SME	175	133
Finance lease receivables due from individuals	52	56
Total loans and advances to customers, gross	**2,726**	**2,331**
Less: Provision for loan impairment	(1,596)	(1,669)
Total	**1,130**	**662**

Fair value of embedded derivative related to borrowers is disclosed in Notes 28 and 29.

Refer to Note 29 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 31.

11 Operation of the Group in Crimea

Background facts

In February 2014, the Russian Federation commenced a military operation and established physical possession and control over Crimea. The Bank attempted to continue operations in Crimea, however the lack of clarification regarding the Russian Federation's regulations applicable to the banking sector in Crimea lead to suspension of the Bank's operations in Crimea. On 15 April 2014 the Ukrainian parliament adopted the Law on occupied territories. Further, the NBU's Regulation enforced on 6 May 2014 effectively prohibited Ukrainian banks to conduct their operations in Crimea. On 2 April 2014, the Russian Federation established the Depositors Protection Fund which under the laws of the Russian Federation assumed the liability to repay depositors of Ukrainian banks in Crimea amounts up to RUB 700 thousand (equivalent of UAH 186 thousand). During April-September 2014, in accordance with the Crimean court decisions and various decrees of the Crimean State Council, the Bank's property in Crimea, including collateral of assets in Crimea securing the Bank's loans was nationalised or transferred to the Deposit Guarantee Fund. Under the Russian regulations, any amounts exceeding the limit of RUB 700 thousand (equivalent of UAH 186 thousand) should be repaid to the depositors following the Fund's ability to claim sufficient funds from loan repayment, property utilization and, potentially, claims to the banks.

11 Operation of the Group in Crimea (Continued)

Sale of assets and liabilities in Crimea

In response to the above circumstances, in November-December 2014, the Bank sold its assets and liabilities associated with the operations in Crimea to a financial company, being a fully-consolidated subsidiary of the Group. In December 2014, the Group sold its controlling share in this subsidiary to a related party of the Group.

The classes of assets and liabilities of the Crimea operations were as follows:

In millions of Ukrainian hryvnias	**November 2014**
Cash and cash equivalents	73
Loans and advances to customers, gross	7,508
Available for sale financial assets	272
Premises, leasehold improvements, equipment and intangible assets	203
Other assets	4
Customer accounts	(8,215)
Net assets disposed of	**(155)**
Total disposal consideration	**-**
Less: cash and cash equivalents in Crimea	(73)
Cash outflow on disposal	**(73)**

Breakdown of loans and advances to customers associated with operations in Crimea:

In millions of Ukrainian hryvnias	**November 2014**
Corporate loans	5,468
Loans to individuals - cards	1,085
Loans to individuals - mortgage	426
Loans to individuals - consumer	329
Loans to individuals - auto	12
Loans to individuals - other	43
Loans to small and medium enterprises (SME)	114
Finance lease receivables due from individuals	31
Total loans and advances to customers, gross	**7,508**
Less: Provision for loan impairment	(1,234)
Total loans and advances to customers associated with operations in Crimea	**6,274**

Disputes with the Russian Federation on misappropriation of the Bank's assets and liabilities

In July 2014 the Bank commenced formal preparations to the disputes with the Russian Federation by notifying its officials. On 1 April 2015, the Bank and the financial company, to which abovementioned assets and liabilities were sold, filed a Notice of Arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law and demand a dispute with the Russian Federation on its unlawful misappropriation of the Group's assets and liabilities. The provision for impairment in the table above was estimated assuming that repossessing collateral could be enforced.

11 Operation of the Group in Crimea (Continued)

Provision and contingent liability relating to cessation of the Group's operations in Crimea

Based on the information publicly released by the Deposit Guarantee Fund, since March 2014 the Deposit Guarantee Fund repaid substantial part of the Group's obligations under the current and deposit account agreements. The Group does not possess any information on the individual liabilities being settled. As a result of the actions taken by the Deposit Guarantee Fund, the Group has been discharged from its primary contractual obligations to its customers, who forfeited any further claims to the Group by passing original documents to the Deposit Guarantee Fund. In addition to those liabilities that were discharged, the nature of non-repaid liabilities also has changed since the Group has no longer sufficient records to identify those individual obligations to customers that remain unsettled. Repayment of such deposits has become contingent upon new factors and events.

As the result of the abovementioned unusual set of circumstances the Group accounted for the events as a loss of control over its business in Crimea and believes that it has neither financial assets nor financial liabilities originated in Crimea but rather a non-financial obligations measured in accordance with IAS 37 i.e. provision for possible outflows and contingent liabilities. With this respect, the Group recognised a provision relating to cessation of its operations in Crimea of UAH 700 million based on the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into the account related risks and uncertainties (refer to Note 4). In addition, the Group discloses contingent liability of UAH 8,215 million, being the remaining amount of customer accounts outstanding after the annexation of Crimea, because at the reporting date it is not probable that outflow of resources will be required to settle obligations originated in Crimea and the amount of such obligations cannot be measured reliably by the Group (refer to Note 27).

Information on the provision recognised by the Group in respect of its sale of assets and liabilities associated with Crimea is disclosed in Notes 17 and 22. Information on the related party transactions is disclosed in Note 31.

12 Premises, Leasehold Improvements and 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 2014		**1,950**	**40**	**1,198**	**128**	**688**	**4,004**
Cost or valuation at 1 January 2014		2,106	125	2,234	170	1,314	5,949
Accumulated depreciation and amortisation at 1 January 2014		(156)	(85)	(1,036)	(42)	(626)	(1,945)
Additions		96	13	604	25	182	920
Disposals		(190)	(1)	(63)	(11)	(16)	(281)
Depreciation and amortisation charge		(50)	(22)	(317)	(37)	(187)	(613)
Impairment charge to profit or loss		(135)	-	(41)	(5)	(9)	(190)
Revaluation		500	-	-	-	-	500
Effect of translation to presentation currency		95	7	59	5	52	218
Disposal of subsidiary	22	(127)	(2)	(57)	(4)	(112)	(302)
Reclassification to non-current assets held for sale (or disposal groups)		(23)	(12)	(98)	(6)	(19)	(158)
Carrying amount at 31 December 2014		**2,116**	**23**	**1,285**	**95**	**579**	**4,098**
Cost or valuation at 31 December 2014		2,213	104	2,536	162	1,249	6,264
Accumulated depreciation and amortisation at 31 December 2014		(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	22	(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)
Carrying amount at 31 December 2015		**2,294**	**79**	**1,043**	**703**	**532**	**4,651**

Premises have been revalued at fair value at 1 November 2014. The valuation was carried out by a firm of valuers who hold a suitable professional qualification and who have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices.

Included in the above carrying amount is UAH 1,081 million (31 December 2014: UAH 1,101 million) representing revaluation surplus relating to premises of the Group. As of 31 December 2015 a cumulative deferred tax liability of UAH 193 million (31 December 2014: UAH 198 million) with respect to this valuation adjustment has been recorded directly to the equity. At 31 December 2015 the carrying amount of premises would have been UAH 1,535 million (31 December 2014: UAH 1,296 million) had the assets been carried at cost less depreciation.

As of 31 December 2015 the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 257 million (31 December 2014: UAH 300 million).

12 Premises, Leasehold Improvements and Equipment and Intangible Assets (Continued)

As of 31 December 2015 premises carried at UAH 1,058 million (31 December 2014: UAH 975 million) have been pledged to the NBU as collateral with respect to the refinancing loans received. Refer to Note 13 and 27.

As of 31 December 2015 premises, leasehold improvements and equipment of carrying value of UAH 38 million (2014: UAH 33 million) carrying amount were located in Donetsk and Lugansk regions, not controlled by the Ukrainian government.

13 Due to the NBU

Balances due to the NBU are as follows:

In millions of Ukrainian hryvnias	**31 December 2015**	**31 December 2014**
Term borrowings from the NBU	27,079	18,357
Total due to the NBU	**27,079**	**18,357**

In 2015 the Bank received UAH denominated refinancing loans from the National Bank of Ukraine of the following tranches:

In millions of Ukrainian hryvnias	**Bearing interest rate**	**Maturity date**	**Loan amount**
January	21.00%	December 2016	2,380
February	21.00%	February 2017	2,280
February	21.00%	December 2016	309
February	31.50%	February 2017	700
March	21.00%	December 2016	101
March	31.50%	March 2017	2,015
April	31.50%	April 2017	1,220
April	31.50%	March 2017	695
Total			**9,700**

In 2014 the Bank received UAH denominated refinancing loans from the National Bank of Ukraine of the following tranches:

In millions of Ukrainian hryvnias	**Bearing interest rate**	**Maturity date**	**Loan amount**
February	29.25%	December 2016	5,024
March	19.50%	February 2015	5,000
April	19.50%	March 2015	5,000
May	14.25%	May 2016	2,570
July	14.25%	May 2016	145
October	18.75%	August 2016	1,300
December	21.00%	December 2016	850
Total			**19,889**

In February 2015, interest rate on the NBU refinancing loan tranches, which were received in February 2014, was increased from 21% to 29.25% per annum.

The contractual maturity of the NBU refinancing loan tranches outstanding as at 31 December 2015 with the total carrying amount of UAH 27,079 million varies from January 2016 to April 2017. Included in the total amount due to the NBU is the past due amount of UAH 16,720 million. Refer to 25.

13 Due to the NBU (Continued)

In February - March 2016, the additional conditions for the restructuring of the refinancing loans were agreed in the Restructuring Plan and approved by the NBU. As the result, the revised payment schedule on the NBU refinancing loans was agreed between the Bank and the NBU. The Bank repays UAH 650 million monthly instalments starting from March 2016 in accordance with the revised payment schedule, with gradual increase of the amounts to settle the whole amount of refinancing loans by August 2017. The total amount of principal and interest paid by the Bank to the NBU during January-June 2016 amounts to UAH 5,640 million. Refer to Notes 4 and 32.

In addition, one of the Group's shareholders, Mr. I.V. Kolomoysky gave his personal guarantee to secure return of the refinancing loans obtained from the NBU and implementation of the Restructuring Plan.

Assets pledged under the NBU refinancing loans are as follows:

In millions of Ukrainian hryvnias	Note	31 December 2015	31 December 2014
Mandatory reserve balance with the NBU	8	1,294	1,294
Loans and advances to customers	10	43,725	49,231
Premises	12	1,058	975
Assets owned by related and third parties		49,535	19,289
Total		**95,612**	**70,789**

As at 31 December 2015, 8.7 million shares of the Bank or 11.46% of the share capital are pledged as collateral for loans from the National Bank of Ukraine (31 December 2014: 8.7 million shares of the Bank or 13.46% of the share capital). Refer to Note 19.

Refer to Note 29 for the disclosure of the fair value of amounts due to the NBU. Geographical, maturity and interest rate analysis is disclosed in Note 25.

14 Due to Other Banks and Other Financial Institutions

Balances due to other banks and other financial institutions are as follows:

In millions of Ukrainian hryvnias	31 December 2015	31 December 2014
Term placements of other commercial banks	2,258	2,564
Correspondent accounts and overnight placements of other banks	560	711
Long-term loans under the credit lines from other financial institutions	1,654	-
Pledge deposits of other banks	4	4
Total due to other banks and other financial institutions	**4,476**	**3,279**

Term placements of other commercial banks represent placements of commercial banks in USD and EUR with maturities from January 2016 to July 2020 (31 December 2014: placements of commercial banks in USD and EUR with maturities from December 2015 to November 2019).

Refer to Note 29 for the disclosure of the fair value of each class of amounts due to other banks and other financing institutions. Geographical, maturity and interest rate analysis is disclosed in Note 25.

15 Customer Accounts

In millions of Ukrainian hryvnias	31 December 2015	31 December 2014
Individuals		
- Term deposits	111,773	91,080
- Current/demand accounts	32,418	22,521
Legal entities		
- Term deposits	17,105	14,964
- Current/settlement accounts	30,614	23,488
Total customer accounts	**191,910**	**152,053**

Economic sector concentrations within customer accounts are as follows:

	31 December 2015		31 December 2014	
In millions of Ukrainian hryvnias	Amount	%	Amount	%
Individuals	144,191	75	113,601	75
Trade	16,547	9	16,075	11
Services	7,434	4	5,762	4
Manufacturing	7,050	4	6,178	4
Transport and communication	2,185	1	2,970	2
Agriculture	1,790	1	3,445	2
Machinery	651	-	496	-
Other	12,062	6	3,526	2
Total customer accounts	**191,910**	**100**	**152,053**	**100**

At 31 December 2015 the aggregate balances of top 10 customers of the Group amount to UAH 12,708 million (31 December 2014: UAH 12,303 million) or 7% (31 December 2014: 8%) of total customer accounts.

At 31 December 2015 included in customer accounts are deposits of UAH 1,410 million (31 December 2014: UAH 1,192 million) held as collateral for loans and advances to customers with cash covered exposure of UAH 1,410 million (31 December 2014: UAH 1,192 million), issued by the Group.

According to the NBU regulation No.863 “On settlement of the situation in monetary and foreign exchange markets of Ukraine” dated 4 December 2015 banks were required to limit the withdrawal of cash through cash desks and ATMs within UAH 300,000 per day per customer in national currency and UAH equivalent of 20,000 in foreign currencies until 4 March 2016. Refer to Note 32.

Fair value of each class of customer accounts is disclosed in Note 29. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

16 Debt Securities in Issue

In millions of Ukrainian hryvnias	Note	31 December 2015	31 December 2014
Eurobonds		9,131	5,874
Mortgage bonds		14	98
Private placements of bonds	4, 29	-	2,015
Total debt securities in issue		**9,145**	**7,987**

In February 2013 the Group issued USD denominated Eurobonds with a par value of USD 175 million (UAH 1,399 million at the exchange rate at the date of issue) maturing in February 2018. The bonds carry a coupon rate of 10.875% per annum. The Eurobonds are listed at Irish Stock Exchange.

In September 2010 the Group issued USD denominated Eurobonds with a par value of USD 200 million (UAH 1,583 million at exchange rate at the date of issue) carrying a coupon rate of 9.375% per annum. The Eurobonds are listed on the London Stock Exchange. In September 2015, the meeting of Eurobonds holders supported the extension of maturity date until January 2016, and preliminarily agreed to support further maturity extension until January 2018. The condition for further extension was the approval of subordinated debt restructuring of USD 150 million by the debt holders by January 2016. As at 31 December 2015 both arrangements were completed (Refer to Notes 18 and 32). The coupon rate on the bonds increased from 9.375% to 10.25% per annum. The new schedule of repayment provides for payment of 20% of principal amount at 23 August 2016 and 23 February 2017 and 15% - once every three months thereafter until 23 January 2018.

The fair value of each class of debt securities in issue is disclosed in Note 29. Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 25.

17 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 2015	31 December 2014
Other financial liabilities			
Payables for contributions to Individual Deposits Guarantee Fund		316	223
Provision for credit related commitments		56	67
Account payable		421	158
Funds in the course of settlement		54	19
Financial derivatives arising from swap, forward and spot	28	3	55
Other		157	205
Total other financial liabilities		**1,007**	**727**
Provision for liabilities and charges and other non-financial liabilities			
Provision associated with cessation of operations in Crimea	4, 11	700	700
Taxes payable other than on income		585	168
Unused vacation reserve		186	220
Provision for legal case		21	11
Accrued salaries and bonuses		91	137
Other		211	226
Total provisions for liabilities and charges and other non-financial liabilities		**1,794**	**1,462**
Total provisions for liabilities and charges, other financial and non-financial liabilities		**2,801**	**2,189**

Refer to Note 29 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.

18 Subordinated Debt

In millions of Ukrainian hryvnias	31 December 2015	31 December 2014
Subordinated debt provided by legal entities	9,250	5,316
Subordinated debt provided by individuals	216	134
Total subordinated debt	**9,466**	**5,450**

In June 2015 the Group received USD denominated subordinated debt of USD 80 million (UAH 1,696 million at the exchange rate at the date of issue) at contractual rate of 11% per annum payable every month with contractual maturity in June 2020. Refer to Notes 31 and 32.

In August 2013 the Group received USD denominated subordinated debt of USD 100 million (UAH 799 million at the exchange rate at the date of issue) at contractual rate of 8.5% per annum payable every six months with contractual maturity in September 2018.

In September 2013 the Group received UAH denominated subordinated debts of UAH 1,300 million at contractual rate of 9% per annum payable monthly with contractual maturity in October 2018. Effective interest rate is 16.75%.

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debt issued in February 2006 with a par value of USD 150 million (UAH 758 million at par at the exchange rate at the date of issue) with contractual maturity in February 2016. In February 2011 in accordance with the terms and conditions of this subordinated debt the step-up interest rate was set at 5.799% per annum. In November 2015 this subordinated debt was restructured at contractual interest rate of 11% per annum, interest payable every six months with contractual maturity in February 2021. Refer to Note 16.

Refer to Note 29 for the disclosure of the fair value of each class of subordinated debt. Geographical, maturity and interest rate analysis of subordinated debt is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

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 2014	**64.64**	**16,352**
Increase in the nominal amount of the shares through capitalization of dividends	-	1,749
As at 31 December 2014	**64.64**	**18,101**
New shares issued	11.28	3,156
As at 31 December 2015	**75.92**	**21,257**

The nominal registered amount of the Bank’s issued share capital at 31 December 2015 is UAH 21,257 million (31 December 2014: UAH 18,101 million). The total authorised number of ordinary shares is 75.92 million shares (31 December 2014: 64.64 million shares) with a par value of UAH 280 per share (31 December 2014: UAH 280 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

As at 31 December 2015, 8.7 million shares of the Bank or 11.46% of share capital are pledged as collateral on loans from the NBU (31 December 2014: 8.7 million shares of the Bank or 13.46% of share capital). Refer to Note 13.

19 Share Capital and other reserve funds (Continued)

Included in retained earnings is reserve capital established in accordance with the requirements of the Ukrainian legislation amounting to UAH 1,427 million (31 December 2014: UAH 1,427 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.

In August 2014 the shareholders of the Bank made a decision to increase the share capital of the Bank by UAH 1,749 million up to the nominal value of UAH 18,101 million by capitalising the dividends attributable to the shareholders of the Bank for the year ended 31 December 2013. Increase of share capital by UAH 1,749 million was fully registered in 2014. In December 2014 the shareholders of the Bank made a contribution received for a new share issue of UAH 1,000 million. As at 31 December 2014 the new share issue was not registered. As at 30 June 2015, increase of share capital by UAH 1,000 million was fully registered.

In June 2015 the shareholders of the Bank made a contribution received for a new share issue of UAH 2,159 million and in July 2015 it was registered as share capital and as share premium.

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 Bank by the weighted average number of ordinary shares outstanding during the year.

In millions of UAH except for number of shares	**2015**	**2014**
Profit for the period attributable to owners of the Bank	326	412
Profit for the period related to continuing operations attributable to owners of the Bank	346	427
Loss for the period related to discontinued operations attributable to owners of the Bank	(20)	(15)
Weighted average number of ordinary shares in issue, in millions	70.57	64.64
Earnings per share, basic and diluted (expressed in UAH per share)	4.62	6.37
Earnings per share from continuing operations (expressed in UAH per share)	4.90	6.61
Earnings per share from discontinued operations (expressed in UAH per share)	(0.28)	(0.24)

20 Interest Income and Expense

In millions of Ukrainian hryvnias	**2015**	**2014**
Interest income		
Loans and advances to legal entities	19,082	16,687
Loans and advances to individuals	11,121	8,410
Due from other banks	186	352
Other	434	175
Total interest income	**30,823**	**25,624**
Interest expense		
Term deposits of individuals	15,772	11,289
Due to the NBU	5,789	2,551
Term deposits of legal entities	2,363	1,063
Current/settlement accounts	1,897	1,497
Debt securities in issue	1,801	1,361
Subordinated debt	702	412
Due to other banks and other financing institutions	532	181
Other	1	12
Total interest expense	**28,857**	**18,366**
Net interest income	**1,966**	**7,258**

Information on interest income and expense from transactions with related parties is disclosed in Note 31.

21 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	2015	2014
Fee and commission income		
Settlement transactions	4,753	3,085
Cash collection and cash transactions	2,184	1,319
Other	392	246
Total fee and commission income	**7,329**	**4,650**
Fee and commission expense		
Cash and settlement transactions	1,698	1,073
Other	5	19
Total fee and commission expense	**1,703**	**1,092**
Net fee and commission income	**5,626**	**3,558**

Information on fee and commission income from transactions with related parties is disclosed in Note 31.

22 Administrative and Other Operating Expenses

In millions of Ukrainian hryvnias	Note	2015	2014
Staff costs		3,444	3,768
Contributions to Individual Deposits Guarantee Fund		1,199	947
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	12	657	583
Mail and telecommunication		555	497
Rent		460	507
Maintenance of premises, leasehold improvements and equipment		408	355
Utilities and household expenses		372	474
Taxes other than on income		507	275
Provision for other financial assets and other assets		260	176
Security		151	155
Professional services		118	82
Transportation		110	74
Advertising and marketing		103	172
Loss of disposed subsidiary	7	12	194
Provision associated with Crimean liabilities	4	-	700
Share grant	31	-	295
Loss on disposal of Crimean operations	11	-	155
Other		709	539
Total administrative and other operating expenses		**9,065**	**9,948**

Included in staff costs is unified social contribution of UAH 833 million (2014: UAH 959 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 31.

23 Income Taxes

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

In millions of Ukrainian hryvnias	2015	2014
Current tax	105	180
Deferred tax	92	(278)
Income tax (credit)/expense for the year	**197**	**(98)**

In 2015 the income tax rate applicable to the majority of the Group's income was 18% (2014: 18%). The income tax rate applicable to the majority of income of subsidiaries ranges from 12.5% to 19% (2014: from 12.5% to 30%). Reconciliation between the theoretical and the actual taxation charge is provided below.

In millions of Ukrainian hryvnias	2015	2014
Profit before tax	**472**	**149**
Theoretical tax charge at statutory rate (2015: 18%; 2014: 18%)	86	26
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	-	(15)
- Non-deductible expenses	111	126
- Derecognition of previously recognised deferred tax liability	-	(236)
- Effect from changes in tax rates	-	3
Unrecognised deferred tax assets	-	(2)
Income tax (credit)/expense for the year	**197**	**(98)**

As at 31 December 2014 has non-deductible expenses of UAH 126 million relate to the provision associated with loss of control of the Bank's business in Crimea. Please refer to Notes 4, 17 and 22.

In 2015 a deferred tax liability of UAH 136 million has been recorded in other comprehensive income in respect of the revaluation of the Group's investment securities available-for-sale. In 2014 a deferred tax liability of UAH 106 million and UAH 46 million has been recorded in other comprehensive income in respect of the revaluation of the Group's investment securities available-for-sale and revaluation of the Group's premises, respectively.

23 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations in Ukraine and other countries 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 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	7	(10)	-	(3)
Gross deferred tax asset	**7**	**(10)**	**-**	**(3)**
Less offsetting with deferred tax liability	(89)	10	-	(79)
Recognition of deferred tax asset which was previously unrecognised	82	-	-	82
Recognised deferred tax asset	**-**	**-**	**-**	**-**
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	-	-
Fair value of 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, impairment provision for loans	900	(829)	-	71
Fair value of embedded derivative assets	(3,656)	3,031	-	(625)
Premises, leasehold improvements and equipment	(192)	59	-	(133)
Gross deferred tax liability	**(873)**	**(82)**	**(136)**	**(1,091)**
Less offsetting with deferred tax asset	89	(10)	-	79
Recognised deferred tax liability	**(784)**	**(92)**	**(136)**	**(1,012)**

23 Income Taxes (Continued)

In millions of Ukrainian hryvnias	31 December 2013	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	31 December 2014
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	94	(87)	-	7
Gross deferred tax asset	**94**	**(87)**	**-**	**7**
Less offsetting with deferred tax liability	(151)	62	-	(89)
Recognition of deferred tax asset which was previously unrecognised	80	2	-	82
Recognised deferred tax asset	**23**	**(23)**	**-**	**-**
Tax effect of taxable temporary differences				
Prepaid expenses and other assets	4	(41)	-	(37)
Fair value of subordinated debt	(47)	10	-	(37)
Investment securities available-for-sale	(138)	68	(106)	(176)
Accrued income	(78)	595	-	517
Accrued expenses of embedded derivative liabilities	-	1,808	-	1,808
Loans and advances, impairment provision for loans	7	893	-	900
Fair value of embedded derivative assets	(677)	(2,979)	-	(3,656)
Premises, leasehold improvements and equipment	(112)	9	(89)	(192)
Gross deferred tax liability	**(1,041)**	**363**	**(195)**	**(873)**
Less offsetting with deferred tax asset	151	(62)	-	89
Recognised deferred tax liability	**(890)**	**301**	**(195)**	**(784)**

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 be accrued even if 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.

24 Segment Analysis (Continued)

(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.

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 banks 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

The CODM reviews financial information of the Bank prepared based on internal accounting rules adjusted to meet the requirements of NBU accounting rules and before consolidation of subsidiaries. Such financial information differs in certain aspects from International Financial Reporting Standards:

- 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;
- income taxes are not allocated to segments;
- loan loss provisions are recognised based on the statutory accounting rules;
- loans and advances to customers are written-off based on statutory requirements;
- fair value of derivatives are not recognised in statutory accounts;
- managing its open currency position the Bank enters into swap transactions that are recognised at cost in segment reporting; and
- consolidation of subsidiaries.

For each business segment the CODM reviews interest income adjusted for intersegment result (net interest on transactions with other segments).

24 Segment Analysis (Continued)

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

Segment information for the reportable segments for the twelve-month period 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 other 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 other banks and other financing institutions	157	-	-	11,984	12,141
Customer accounts	138,007	39,379	206	-	177,592
Debt securities in issue	-	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 loan impairment	(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
Release of provision for credit related commitments	-	(13)	-	-	(13)
Provision for cash, the existence of which is confirmed	(203)	-	-	-	(203)
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)**

24 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended and at 31 December 2014 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	8,018	-	-	19,058	27,076
Due from other banks	-	-	-	2,169	2,169
Loans and advances to customers	20,364	140,974	-	-	161,338
Investment securities available-for-sale	-	3	371	-	374
Investment securities held to maturity	-	-	-	142	142
Investment property	-	-	10	-	10
Investment in subsidiaries	-	-	681	-	681
Intangible assets	17	6	-	4	27
Premises, leasehold improvements and equipment	1,435	478	7	322	2,242
Other financial assets	68	17	7	8,099	8,191
Other assets	5	93	-	2	100
Total reportable segment assets	**29,907**	**141,571**	**1,076**	**29,796**	**202,350**
Due to the NBU	-	-	-	18,357	18,357
Due to other banks and other financing institutions	112	-	-	10,391	10,503
Customer accounts	107,196	34,789	221	-	142,206
Debt securities in issue	-	2	-	2,014	2,016
Other financial liabilities	445	1,405	1	1	1,852
Other non-financial liabilities	406	21	606	15	1,048
Subordinated debt	-	1,310	-	4,042	5,352
Total reportable segment liabilities	**108,159**	**37,527**	**828**	**34,820**	**181,334**

24 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
2014					
External revenues	12,724	20,084	73	503	33,384
Revenues from/(expenses on) other segments	7,631	(13,568)	(404)	4,086	(2,255)
Total revenues	**20,355**	**6,516**	**(331)**	**4,589**	**31,129**
Total revenues comprise:					
- Interest income	14,155	5,520	(404)	4,510	23,781
- Fee and commission income	5,035	799	68	79	5,981
- Other operating income	1,165	197	5	-	1,367
Total revenues	**20,355**	**6,516**	**(331)**	**4,589**	**31,129**
Interest expense	(11,661)	(2,664)	(8)	(4,503)	(18,836)
Provision for loan impairment	(3,000)	493	-	(3)	(2,510)
Gain from disposal of investment in subsidiaries	-	-	192	-	192
Release of provision for credit related commitments	-	(11)	-	-	(11)
Fee and commission expense	(655)	-	(6)	(381)	(1,042)
Gains less losses from trading in foreign currencies	(132)	(3,001)	1	1,942	(1,190)
Administrative and other operating expenses	(4,272)	(1,087)	(13)	(868)	(6,240)
Depreciation and amortization charge	(257)	(85)	(1)	(58)	(401)
Segment result	**378**	**161**	**(166)**	**718**	**1,091**

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.

In millions of Ukrainian hryvnias	2015	2014
Total revenues for reportable segments	**33,637**	**31,129**
(a) Recognition of embedded derivatives	(2,280)	(1,319)
(b) Consolidation adjustments	1,079	423
(c) Other adjustments	1,121	(143)
(d) Unallocated revenues	5,187	2,256
(e) Provision for impairment	(118)	(1,748)
Total consolidated revenues	**38,626**	**30,598**

24 Segment Analysis (Continued)

Reconciliation of reportable profit or loss:

In millions of Ukrainian hryvnias	2015	2014
Total reportable segment result	**(3,325)**	**1,091**
(a) Recognition of embedded derivatives	(5,198)	5,404
(b) Consolidation adjustments	82	195
(c) Other adjustments	2,402	(3,206)
(d) Unallocated revenues/(expenses)	3,747	(28)
(e) Release of provision/(provision) for impairment	2,764	(3,307)
Profit before tax	**472**	**149**

Reconciliation of reportable assets:

In millions of Ukrainian hryvnias	31 December 2015	31 December 2014
Total reportable segment assets	**258,257**	**202,350**
(a) Recognition of embedded derivatives	684	18,783
(b) Consolidation adjustments	16,325	16,224
(c) Other adjustments	(219)	(3,397)
(d) Unallocated assets	1,119	2,091
(e) Provision for impairment	(289)	(2,617)
(f) Swap and spot operations at fair value	(358)	(3,397)
(g) Reclassifications	(585)	(1,001)
Total consolidated assets	**274,934**	**229,036**

Reconciliation of reportable liabilities:

In millions of Ukrainian hryvnias	31 December 2015	31 December 2014
Total reportable segment liabilities	**230,679**	**181,334**
(a) Recognition of embedded derivatives	-	9,997
(b) Consolidation adjustments	14,788	14,988
(c) Other adjustments	166	(62)
(d) Unallocated liabilities	1,158	409
(f) Swap and spot operations at fair value	(479)	(3,427)
(g) Reclassifications	(584)	(586)
(h) Deferred income tax liability	161	650
Total consolidated liabilities	**245,889**	**203,303**

24 Segment Analysis (Continued)

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 and financial derivatives**
Total amount for all reportable segment	**23,214**	**8,271**	**-**
(a) Recognition of embedded derivatives	(2,280)	-	6,571
(b) Consolidation adjustments	514	338	-
(c) Other adjustments	814	131	36
(d) Unallocated revenues	5,187	-	-
(g) Reclassifications	3,374	(1,411)	(90)
As reported under IFRS	**30,823**	**7,329**	**6,517**

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)	(97)	(645)
(c) Other adjustments	(71)	(661)	52
(d) Unallocated expenses	(6)	-	(2,040)
(e) Release of provision/(provision) for impairment	-	4,128	(25)
(g) Reclassifications	254	(626)	(243)
As reported under IFRS	**(28,857)**	**(6,167)**	**(9,065)**

Reconciliation of material items of income for the year ended 31 December 2014 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	**23,781**	**5,981**	**-**
(a) Recognition of embedded derivatives	(1,319)	-	6,722
(b) Consolidation adjustments	68	260	-
(c) Other adjustments	(1,435)	(66)	-
(d) Unallocated revenues	2,256	-	-
(g) Reclassifications	2,273	(1,525)	-
As reported under IFRS	**25,624**	**4,650**	**6,722**

24 Segment Analysis (Continued)

Reconciliation of material items of expense for the year ended 31 December 2014 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	**(18,836)**	**(2,510)**	**(6,641)**
(b) Consolidation adjustments	(71)	(58)	(547)
(c) Other adjustments	188	(676)	(387)
(d) Unallocated	(1)	-	(1,675)
(e) Provision for impairment	-	(3,812)	(698)
(g) Reclassifications	354	2,367	-
As reported under IFRS	**(18,366)**	**(4,689)**	**(9,948)**

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 other 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 as at 31 December 2015 is as follows:

In millions of Ukrainian hryvnias	Due to other banks and other financial 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**

24 Segment Analysis (Continued)

Reconciliation of material assets as at 31 December 2014 is as follows:

In millions of Ukrainian hryvnias	**Cash and cash equivalents and mandatory reserves**	**Due from other 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	**27,076**	**2,169**	**161,338**	**-**	**-**	**8,191**
(a) Recognition of embedded derivatives	-	-	(1,239)	20,022	-	-
(b) Consolidation adjustments	5,135	2,264	2,657	-	4,070	65
(c) Other adjustments	-	-	(3,313)	(44)	-	(47)
(e) Provision for impairment	4	65	(2,873)	-	-	171
(f) Swap and spot operations at fair value	-	(975)	(2,467)	-	-	45
(g) Reclassifications	(12,633)	12,062	7,727	-	-	(7,563)
As reported under IFRS	**19,582**	**15,585**	**161,830**	**19,978**	**4,070**	**862**

Reconciliation of material liabilities at 31 December 2014 is as follows:

In millions of Ukrainian hryvnias	**Due to other banks and other financial institutions**	**Customer accounts**	**Debt securities in issue**	**Embedded derivative liabilities**	**Provisions for liabilities and charges, other financial and non-financial liabilities**	**Liabilities directly associated with disposal groups held for sale**	**Subor-dinated debt**
Total amount for all reportable segment	**10,503**	**142,206**	**2,016**	**-**	**2,900**	**-**	**5,352**
(a) Recognition of embedded derivatives	-	-	-	10,047	-	-	-
(b) Consolidation adjustments	(153)	11,373	(124)	-	355	3,150	340
(c) Other adjustments	-	(54)	-	-	498	-	(242)
(f) Swap and spot operations at fair value	(976)	(2,494)	-	-	43	-	-
(g) Reclassifications	(6,095)	1,022	6,095	-	(1,607)	-	-
As reported under IFRS	**3,279**	**152,053**	**7,987**	**10,047**	**2,189**	**3,150**	**5,450**

The reconciling items are attributable to the following:

(a) Embedded derivative assets and embedded derivative liabilities are accounted for at fair value for IFRS purposes. In statutory accounts results from operations with embedded derivative assets are accounted for when cash is received within interest income. Embedded derivative liabilities are not accounted for in statutory accounts.

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

(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.

24 Segment Analysis (Continued)

(e) Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment and reversal of accrued interest on impaired loans under the NBU accounting rules used for preparation of management reporting and the methodology used for IFRS reporting. The provision under the NBU accounting rules is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model. The accrued interest on impaired loans under the NBU accounting rules is recognised at full amount whereas the accrued interest under IFRS requirement is recognised on recoverable amount only.

(f) The Bank presented swap and spot operations on a 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 Bank presented debt securities issued separately in IFRS financial statements. The Bank presented financial guarantees on gross basis in its segment reporting prepared in accordance with the NBU rules.

(h) In Segment reporting the CODM doesn’t analyse taxation.

The Bank does 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 Note 20 and Note 21.

(f) Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows:

In millions of Ukrainian hryvnias	**2015**	**2014**
Ukraine	34,224	28,066
Other countries	4,402	2,532
Total consolidated revenues	**38,626**	**30,598**

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.

25 Financial Risk Management (Continued)

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 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 including the Financial Risks Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

Credit Committee

The Credit Committee, which is composed of the Chairman of the Bank, his Deputies, the Head of the Dnipropetrovsk regional branch, the Head of the Finance and Risk Division, Head of Risk-Management Division, Head of Internal Control and Fraud-Management Division, meets two times 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 Group’s loan portfolio and reviewing large loan projects and the lending policies of the Bank’s branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group’s main competitors and the overall market situation and determines the Group’s 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 preparing and formulating management decisions with regard to increasing the Group’s funding base.

Treasury

Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group’s assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial Risks Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

Financial Risks Department

Financial Risks Department calculates and monitors the Bank’s compliance with the mandatory ratios set by the NBU, the requirement to maintain mandatory reserves on the Bank’s correspondent account with the NBU and its internal liquidity ratios (in accordance with the Bank’s internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial Risks Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

In order to monitor and control liquidity within the Bank and its branches and sub-branches, the Financial Risks Department prepares daily reports on the maximum liquidity gap by matching assets and liabilities with different maturities and currencies as well as providing daily forecasts of the Group’s balances on its correspondent account with the NBU to ensure the Bank’s compliance with the mandatory reserve requirement and with the instant, current and short-term liquidity ratios set by the NBU. The liquidity reports are maintained in an electronic database that is accessible by the Treasury and is used for purposes of liquidity management. In addition, the Financial Risks Department prepares guidelines for head office business divisions seeking to raise long-term funds and/or reviews decisions of the Credit Committee on the implementation of programmes to increase the Bank’s funding base in order to ensure that the Group’s short- and long-term liquidity requirements are met.

25 Financial Risk Management (Continued)

Risk-Management Division

The Risk-Management Division analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, sets the lending authority limits of branch and sub-branch heads. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBU as well as the Group's internal guidelines.

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 instrument 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 Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated 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 27. The credit risk is mitigated by collateral and other credit enhancements.

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

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. The formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans.

The Group has collateral policy based on a thorough review and assessment of the value of collateral. A substantial portion of the Group's loan portfolio generally includes acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated 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 the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as at the current date and over a period of time.

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

25 Financial Risk Management (Continued)

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 Group's trained specialists on collateral.

The Bank 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 Bank together with proxies authorizing 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 the head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a proposed 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 a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Bank's credit procedures.

Off-Balance Sheet Policy

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in respect of conditional obligations as it does for financial instruments accounted for in the consolidated statement of financial position, which include credit approval procedures, risk control limits and monitoring procedures.

Loan Monitoring

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

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

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The review of collateral is performed by independent appraisal companies. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

Problem loans are identified on a daily basis based on signs of debt servicing deterioration. The Group carries out analyses of problem loans by collecting information about such loans, investigating the causes of problems and working out measures for their early redemption. On the basis of the findings of such analyses, a report is submitted to the Bank's Board regarding the problem loans in the Group's loan portfolio and the level of acceptable credit risk. To improve the quality of the loan portfolio, the Group applies a policy of on-line blocking the ability of a sub-branch or manager responsible for a particular lending programme to grant further loans if the percentage of non-performing loans issued by a particular sub-branch or manager exceeds the maximum permitted level of problem assets until this level decreases.

Management maintains individual records of 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.

25 Financial Risk Management (Continued)

Problem Loan Recovery

The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Group to realise high possible 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, the officers loan inspectors contact the borrower, request repayment and check the availability of any collateral. The loan inspector calls borrowers to remind them of their repayment obligation several days before the scheduled repayment date, and after such date to demand repayment (during day-time and night-time). 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 able to identify all 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.

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 Service 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 Service 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 bank 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 that problem loans are not refinanced without convincing evidence that they will be repaid or reliably secured.

Related Party Lending

The Group conducts its business with related parties on a commercial term. 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.

25 Financial Risk Management (Continued)

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 other banks pursuant to which the Group makes term deposits with other banks and accepts term deposits for the same term from the same counterparty banks in a different currency.

The Group also enters into currency options in the Group's loan agreements with some customers requiring the customers to pay compensation in case of depreciation of the Ukrainian hryvnia relative to the U.S. dollar. Refer to Note 28.

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 2015				**As at 31 December 2014**			
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	148,013	113,411	(2,741)	31,861	131,048	97,714	(984)	32,350
US Dollars	99,549	104,007	2,164	(2,294)	78,191	79,073	(10,908)	(11,790)
Euros	18,451	25,180	601	(6,128)	9,590	21,871	11,461	(820)
Other	727	482	16	261	3,723	2,311	450	1,862
Total	**266,740**	**243,080**	**40**	**23,700**	**222,552**	**200,969**	**19**	**21,602**

Fair value of option derivative embedded in loans and advances to customers (refer to Note 28) was included in the table above together with host instruments into UAH denominated financial assets.

As at 31 December 2014 the guarantee deposit with other banks in the amount of UAH 12,063 million was included in the table above in US dollars denominated monetary financial assets. As of 31 December 2015 the remaining amount of guarantee deposits with other banks of UAH 1,855 million represents a guarantee deposit with the OECD bank that is pledged under the loan issued by this OECD bank to a corporate client. Refer to Note 27.

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.

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 28. The net total represents the fair value of the currency derivatives.

25 Financial Risk Management (Continued)

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 2015		As at 31 December 2014	
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% (2014: strengthening by 50%)	345	345	10,505	10,505
US Dollar weakening by 5% (2014: weakening by 5%)	294	294	540	540
Euro strengthening by 10% (2014: strengthening by 50%)	(613)	(613)	(410)	(410)
Euro weakening by 5% (2014: weakening by 5%)	306	306	41	41
Other strengthening by 5% (2014: strengthening by 5%)	13	13	93	93
Other weakening by 5% (2014: weakening by 5%)	(13)	(13)	(93)	(93)

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 takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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 Board sets limits on the level of mismatch of interest rates on assets and liabilities sensitive to interest rates, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

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. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity, while assets and liabilities with a variable interest rate are arranged by the nearest possible term of repricing. The net sensitivity gap between assets and liabilities in a given time band represents the volume 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 in that time band, 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 2015						
Total financial assets	51,390	26,908	124,167	64,318	1,880	268,663
Total financial liabilities	109,034	33,651	69,898	30,500	-	243,083
Net interest sensitivity gap at 31 December 2015	**(57,644)**	**(6,743)**	**54,269**	**33,818**	**1,880**	**25,580**
31 December 2014						
Total financial assets	49,972	28,707	92,401	51,546	985	223,611
Total financial liabilities	69,718	41,474	68,615	21,217	-	201,024
Net interest sensitivity gap at 31 December 2014	**(19,746)**	**(12,767)**	**23,786**	**30,329**	**985**	**22,587**

All of the Group's debt instruments reprice within 5 years, except for customer accounts and subordinated debt.

25 Financial Risk Management (Continued)

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 2015				31 December 2014			
In % p.a.	**USD**	**UAH**	**Euro**	**Other**	**USD**	**UAH**	**Euro**	**Other**
Assets								
Correspondent accounts and overnight deposits with other banks	-	-	-	-	0	-	-	0
Correspondent accounts with Central Banks	-	-	-	-	-	1	0	-
Due from other banks	-	-	-	-	0	-	2	-
Loans and advances to legal entities	9	16	6	5	10	14	8	0
Loans and advances to individuals	14	43	9	-	13	36	9	-
Debt investment securities held to maturity	-	-	-	-	-	-	-	-
Non-current assets held for sale (or disposal groups)	-	-	-	-	18	-	16	25
Liabilities								
Due to the NBU	-	23	-	-	-	19	-	-
Correspondent accounts and overnight deposits of other banks	14	-	9	-	7	10	4	-
Term placements of other banks	11	25	5	-	5	22	3	-
Long-term loans under the credit lines from international financial institutions	-	-	-	-	-	-	-	-
Customer accounts								
- current accounts of customers	2	7	1	-	5	5	1	0
- term deposits of legal entities	10	19	8	-	10	19	6	0
- term deposits of individuals	12	24	10	7	10	20	9	8
Debt securities in issue	11	15	-	-	10	12	-	-
Subordinated debt	10	9	6	-	7	9	6	-
Liabilities directly associated with disposal groups held for sale	-	-	-	-	4	-	-	5

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

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.

25 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial 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 other 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 other 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 (Note 27)	**1,284**	**209**	**716**	**2,209**

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 2014 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	8,416	8,804	2,362	19,582
Due from other banks	31	14,062	1,492	15,585
Loans and advances to customers	138,164	11,848	11,818	161,830
Embedded derivative assets	19,978	-	-	19,978
Investment securities available-for-sale	4	1,033	225	1,262
Investment securities held to maturity	-	284	364	648
Other financial assets	125	93	644	862
Financial assets included in non-current assets held for sale (or disposal groups)	392	39	3,433	3,864
Total financial assets	**167,110**	**36,163**	**20,338**	**223,611**
Non-financial assets	**4,107**	**12**	**1,306**	**5,425**
Total assets	**171,217**	**36,175**	**21,644**	**229,036**
Liabilities				
Due to the NBU	18,357	-	-	18,357
Due to other banks and other financing institutions	2,200	909	170	3,279
Customer accounts	123,272	13,976	14,805	152,053
Debt securities in issue	2	5,972	2,013	7,987
Embedded derivative liabilities	-	-	10,047	10,047
Other financial liabilities	561	65	101	727
Subordinated debt	1,152	2,425	1,873	5,450
Liabilities directly associated with disposal groups held for sale	191	1	2,932	3,124
Total financial liabilities	**145,735**	**23,348**	**31,941**	**201,024**
Non-financial liabilities	**1,388**	**5**	**886**	**2,279**
Total liabilities	**147,123**	**23,353**	**32,827**	**203,303**
Net balance sheet position	**24,094**	**12,822**	**(11,183)**	**25,733**
Credit related commitments and financial guarantees (Note 27)	**1,227**	**163**	**1,605**	**2,995**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of the Group's net assets. Refer to Notes 9 and 10.

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

25 Financial Risk Management (Continued)

The Group has developed specific approaches to liquidity issues based on medium-term (i.e., three to twelve months), short-term (i.e., two to fifteen weeks) and current (i.e., up to fourteen days) time periods. With respect to medium-term liquidity, the Treasury, in co-ordination with the Financial Risks Department, performs an analysis of the Group's payments calendar over this period and considers contingency options available to the Group in the event that unfavourable developments or crisis situations occur.

Decisions on short-term liquidity management are taken by the Treasury. These decisions are based on an analysis of the volatility of various assets and liabilities. Estimates are made after application of internally developed models as to the volume and likelihood of unexpected withdrawals of funds and the probability that additional funding might be required. In order to minimise unanticipated changes in funding, the Group separately analyses the possible consequences of the withdrawal of a large amount of funds by major customers. Client managers and senior Group management work closely with major customers to coordinate plans with regard to movement of funds.

Decisions with respect to current liquidity management are taken by the head of Treasury. Reports on actions taken are made to the Credit Committee. The Group's payments calendar for each upcoming 14-day period is analysed, and decisions taken on the attraction of short-term interbank deposits, the immediate sale of securities from the Treasury portfolio, and other facilities available to the Group. The Treasury implements decisions on a real-time basis.

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

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a regular basis in accordance with the requirement of the NBU. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 57% at 31 December 2015 (31 December 2014: 70%) with the minimum required limit of 20% (31 December 2014: 30%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 60% at 31 December 2015 (31 December 2014: 84%) with the minimum required limit of 40% (31 December 2014: 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 97% at 31 December 2015 (31 December 2014: 99%) with the minimum required limit of 60% (31 December 2014: 60%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, 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.

25 Financial Risk Management (Continued)

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 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 other banks and other financing institutions	1,285	50	1,047	1,418	1,736	5,536
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	**115,012**	**38,243**	**76,252**	**31,477**	**5,783**	**266,767**
Credit related commitments and financial guarantees, gross (Note 27)	**2,328**	**-**	**-**	**-**	**-**	**2,328**

The maturity analysis of financial liabilities at 31 December 2014 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	313	10,019	5,143	5,005	-	20,480
Due to other banks and other financing institutions	1,873	26	666	871	-	3,436
Customer accounts	64,877	21,113	63,956	10,801	121	160,868
Debt securities in issue	15	2,320	3,557	3,273	-	9,165
Embedded derivative liabilities	-	10,047	-	-	-	10,047
Subordinated debt	86	90	238	6,014	222	6,650
Other financial liabilities	606	55	58	3	-	722
Liabilities directly associated with disposal groups held for sale	3,150	-	-	-	-	3,150
Gross settled swaps, spots and forwards	31,120	-	-	-	-	31,120
Total contractual future payments for financial obligations	**102,040**	**43,670**	**73,618**	**25,967**	**343**	**245,638**
Credit related commitments and financial guarantees, gross (Note 27)	**3,078**	**-**	**-**	**-**	**-**	**3,078**

25 Financial Risk Management (Continued)

Payments in respect of gross settled swaps and forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 28. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity but they forfeit their right to accrued interest.

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 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 other 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 other banks and other financing institutions	1,271	28	938	2,239	-	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	**84,734**	**44,581**	**82,803**	**30,965**	**-**	**243,083**
Net liquidity gap at 31 December 2015	**(27,414)**	**(20,888)**	**37,112**	**34,888**	**1,882**	**25,580**
Cumulative liquidity gap at 31 December 2015	**(27,414)**	**(48,302)**	**(11,190)**	**23,698**	**25,580**	
Credit related commitments and financial guarantees (Note 27)	**2,209**	**-**	**-**	**-**	**-**	**2,209**

In accordance with Ukrainian legislation, the Bank is obliged to repay deposits of individuals on demand of a depositor but they forfeit right to accrued interest. These balances are included in disclosures above in accordance with their contractual maturity. The Bank expects that many customers will not request repayment before contractual maturity.

25 Financial Risk Management (Continued)

The maturity of the amounts due to the NBU corresponds to the contractual payment schedules stipulated in the NBU refinancing loans as at 31 December 2015. Included in the amount payable on demand and less than in one month is the past due amount of UAH 16,720 million. At the same time, the Bank did not fulfil some of conditions of using the refinancing loans, prescribed by the loan agreements, that was noted by the NBU during the review of compliance with refinancing requirements held in 2015. The NBU did not settled unilateral the amount of outstanding refinancing loan from its correspondent account and haven't applied any measures as at 31 December 2015 and subsequently in 2016. In February – March 2016 the NBU approved the revised payment schedule. The Bank adheres to the revised payment schedule in 2016 up to the date of the approval of these consolidated financial statements for the issue. Refer to Notes 4 and 32.

The analysis by expected maturities may be summarised as follows at 31 December 2014:

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	19,582	-	-	-	-	19,582
Due from other banks	14,257	337	986	5	-	15,585
Loans and advances to customers	14,913	17,850	82,062	47,005	-	161,830
Embedded derivative assets	360	1,898	13,893	3,827	-	19,978
Investment securities available-for-sale	275	-	-	5	982	1,262
Investment securities held to maturity	589	-	52	7	-	648
Other financial assets	805	1	16	38	2	862
Financial assets included in non-current assets held for sale (or disposal groups)	3,864	-	-	-	-	3,864
Total financial assets	**54,645**	**20,086**	**97,009**	**50,887**	**984**	**223,611**
Liabilities						
Due to the NBU	34	9,514	4,213	4,596	-	18,357
Due to other banks and other financing institutions	1,843	22	648	766	-	3,279
Customer accounts	48,122	26,676	68,772	8,483	-	152,053
Debt securities in issue	5	2,208	3,257	2,517	-	7,987
Embedded derivative liabilities	-	10,047	-	-	-	10,047
Other financial liabilities	606	55	58	3	5	727
Subordinated debt	64	47	1	5,338	-	5,450
Liabilities directly associated with disposal groups held for sale	3,124	-	-	-	-	3,124
Total financial liabilities	**53,798**	**48,569**	**76,949**	**21,703**	**5**	**201,024**
Net liquidity gap at 31 December 2014	**847**	**(28,483)**	**20,060**	**29,184**	**979**	**22,587**
Cumulative liquidity gap at 31 December 2014	**847**	**(27,636)**	**(7,576)**	**21,608**	**22,587**	
Credit related commitments and financial guarantees (Note 27)	**2,995**	**-**	**-**	**-**	**-**	**2,995**

25 Financial Risk Management (Continued)

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

Management believes 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 Bank is subject to minimum capital requirements established by covenants stated in loan agreements, 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 Bank’s capital calculated in accordance with Basel Accord is as follows:

In millions of Ukrainian hryvnias	**31 December 2015**	**31 December 2014**
Tier 1 capital		
Share capital and share premium	21,280	18,121
Contributions received for new shares issued but not registered	-	1,000
Disclosed reserves	4,889	4,547
Cumulative translation reserve	815	672
Less: goodwill and intangible assets	(115)	(106)
Total tier 1 capital	**26,869**	**24,234**
Tier 2 capital		
Asset revaluation reserves	2,061	1,393
Subordinated debt	7,386	3,007
Total tier 2 capital	**9,447**	**4,400**
Total capital	**36,316**	**28,634**
Risk Weighted Assets		
Banking book	235,694	197,030
Trading book	8,661	12,611
Risk Weighted Assets	**244,355**	**209,641**
Tier 1 capital ratio	**11,00%**	**11.56%**
Capital adequacy ratio (%)	**14.86%**	**13.66%**

26 Management of Capital (Continued)

b) As at 31 December 2015, the National Bank of Ukraine requires banks to maintain a capital adequacy ratio of at least 10% of risk weighted assets calculated in accordance with the regulations of the National Bank of Ukraine (31 December 2014: at least 10%).

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

In millions of Ukrainian hryvnias	**31 December 2015**	**31 December 2014**
Adjusted net assets	18,247	20,001
Plus subordinated debt	7,740	3,248
Less investments into subsidiaries	(435)	(1,223)
Other	-	(4)
Total regulatory capital	**25,552**	**22,022**
Risk weighted assets	**236,087**	**197,013**
Open foreign currency position	**2,808**	**7,810**
Capital adequacy ratio (N2)	**11%**	**11%**

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").

Compliance with externally imposed capital requirements in 2015 and 2014 is disclosed in Note 4.

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 2015 provision of UAH 21 million has been recorded for potential legal liabilities (31 December 2014: UAH 11 million). For the provision associated with loss of control over its business in Crimea refer to Notes 4 and 2.

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.

With effect from 1 January 2015, the Ukrainian tax system was significantly reformed by the adoption of changes to the Tax Code of Ukraine. Applicable taxes include value-added tax, corporate income tax, customs duties and other taxes. As a result, there may be significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. Recent events in Ukraine suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities of the Group that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

27 Contingencies and Commitments (Continued)

The main changes to transfer pricing ("TP") legislation are the following:

- The arm's length principle has been officially introduced.
- The list of related parties and controlled transactions for the purposes of the transfer pricing regulations is expanded. However, transactions between two residents of Ukraine were excluded from the list of controlled transactions.
- The criteria for recognition of controlled transactions have been separated for corporate profit tax ("CPT") and VAT purposes.
- The threshold for controlled transactions has been UAH 5 million (provided the total annual revenue of the taxpayer or its related parties exceeds UAH 50 million).
- The duration of a TP tax audit is increased to 18 months with an extension of 12 months.
- Priority of "official sources" of information is no longer apply. The following sources of information can now be used: (i) information regarding comparable transactions of the taxpayer as well as his counterparty with non-related parties; (ii) any publicly available sources of information which provide information on comparable transactions.
- Taxpayers who performed controlled transactions during the reporting period should file an annex to the CPT return, which contains information about the performed controlled transactions.
- The statutory limitation period for TP assessments was extended to 2,555 days.
- During the TP audit the tax authorities are now entitled to interview employees of the taxpayer and/or its related parties.
- New penalties for non-inclusion of controlled transactions into the TP report: 1% of the amount of controlled transactions, the maximum of 300 minimum wages will no longer apply).
- Fixed penalty is 300 minimum salaries.
- If the price or profitability in the controlled transactions does not fall in the arm's length range, TP adjustments is made to a median level (not the lower / upper limit of the range as previously allowed).

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation. Management has submitted the report on TP and is currently developing necessary internal policies on TP.

The following key VAT amendments were introduced:

- The electronic VAT administration system is implemented starting from 1 February 2015.
- The full amount of VAT receivable accumulated by the taxpayer for the previous periods should be transferred to the VAT account balance.
- The VAT base for taxable supplies cannot be lower than (i) the purchase price for purchased goods/services, (ii) the cost of goods sold for produced goods/services, (iii) the net balance value per accounting books at the beginning of the reporting period for non-current assets.
- Taxpayers are able to return excess cash from their VAT accounts to their current bank accounts.
- Starting from 1 July 2015 the rules for VAT credit accounting changed; in particular, all VAT invoices should be included in the VAT credit (with subsequent assessment of VAT liabilities in case of usage of purchased goods/services in non-business activities or activities not subject to VAT).

The following key CPT amendments were introduced:

- In 2015 standard tax rate remains 18%.
- Annual return for 2015 should be submitted by 28 February 2016, respective tax payment is due by 10 March 2016.
- Starting from 2015 reporting, annual tax base is Net Profits Before Tax (NPBT) as per accounting records, either Ukrainian statutory or IFRS, adjusted for "tax differences".
- Taxpayers with the prior year annual income of equal or less than UAH 20 million (net of indirect taxes) may opt not to make the adjustments. They remain eligible for loss carry forward allowance.
- Taxpayers with an annual income exceeding UAH 20 million are required to make monthly advance tax payments.
- The tax authorities receive the right to audit taxpayer's accounting, correctness and completeness of the calculation of net profit before tax according to the Ukrainian statutory or IFRS rules.
- Penalties for tax violations in respect of 2015 CPT liabilities (i.e. violation of calculation of tax, tax reporting and completeness of tax payment) will not be imposed and late penalties will be applied.

27 Contingencies and Commitments (Continued)

There are also changes to other taxes and duties:

- Dividends received from Ukrainian legal entity CPT payer (other than collective investment arrangement) are subject to 5% personal income tax.
- Additional 5-10% import fee is introduced: 10% will apply for goods classified in chapters 1-24 of the Ukrainian Nomenclature (mostly food and agricultural products, etc.); 5% was applicable for goods classified in chapters 25-97 (all other goods) just till the end of 2015.
- Starting from 1 January 2015, almost all residential and non-residential property owned by individuals and legal entities are subject to real estate tax (some exemptions are in place).
- Starting from 1 January 2015 the duty for purchases of foreign currency is increased from 0.5% to 2%. This pension fund duty should no longer apply to legal entities and does not apply to the purchase of foreign currency by individuals to repay hard currency loans.

The Group includes companies incorporated outside of Ukraine. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Ukrainian profits tax because they do not have a permanent establishment in Ukraine. Ukrainian tax laws do not provide detailed rules on taxation of foreign companies within a Ukrainian group. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Ukrainian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Ukraine may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

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 entity.

Capital expenditure commitments. At 31 December 2015 the Group has contractual capital expenditure commitments in respect of construction of premises and acquisition of computers and furniture and equipment totalling UAH 56 million (31 December 2014: UAH 98 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 of 31 December 2015 and 2014 the Group had no commitments under non-cancellable operating leases.

Compliance with covenants. The Group is subject to certain covenants related to its foreign borrowings. In respect of foreign borrowings, the Bank is required to maintain a certain capital adequacy ratio according to local regulatory requirements. Compliance with debt covenants and local prudential requirements of capital adequacy ratio is disclosed in Note 4.

The Bank is also subject to certain covenants related to refinancing loans obtained from the NBU. In 2014 and 2015, the NBU performed its reviews of the Bank's compliance with refinancing loan's covenants and didn't request early repayment of the loans. Refer to Note 4.

In 2016 the NBU started its regular complex review of the Bank's activity for 2015. As at the date of these consolidated financial statements the Bank is in the process of discussing the preliminary findings of the NBU's review. No final report is issued.

Contingent liabilities. The Group has a contingent liability of UAH 8,215 million relating to cessation of its operations in Crimea. At the reporting date it is not probable that outflow of resources will be required to settle the obligations originated in Crimea. Refer to Notes 4 and 11.

Once it becomes probable through the outcome of litigations and disputes in Ukraine or international courts or changes in legal status of Crimea, that an outflow of future economic benefits will be required for this contingent liability, the Group will recognise a provision in its consolidated financial statements in the period in which the change in probability occurs.

27 Contingencies and Commitments (Continued)

The Group commenced a dispute with the Russian Federation and believes it will be able to reimburse any possible negative outcome of the above contingent liabilities in the case it become probable.

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 2015	31 December 2014
Guarantees issued		1,502	1,905
Import letters of credit		609	965
Irrevocable commitments to extend credit		217	208
Less: Cash covered letters of credit		(63)	(61)
Less: Provision for credit related commitments	17	(56)	(22)
Total credit related commitments and financial guarantees		**2,209**	**2,995**

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 2015 and 2014 was insignificant.

As of 31 December 2015 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount UAH 63 million (31 December 2014: UAH 61 million) are secured by customer accounts of UAH 63 million (31 December 2014: UAH 61 million).

Credit related commitments are denominated in currencies as follows:

In millions of Ukrainian hryvnias	31 December 2015	31 December 2014
US Dollars	902	1,838
Ukrainian Hryvnias	879	871
Euro	224	257
Other currencies	204	29
Total	**2,209**	**2,995**

As of 31 December 2015 the Group had undrawn credit limits on credit cards of UAH 19,383 million (31 December 2014: UAH 23,870 million) that are 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 2015 and 2014.

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 2015 Nominal value	31 December 2014 Nominal value
Shares of Ukrainian companies	6,512	6,353
Domestic corporate bonds	834	1,606
Investment certificates	283	387

Funds under trust management. Funds under trust management represent assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such assets. The Group is not subject to interest, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers. Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans. As of 31 December 2015 assets under trust management amounted to UAH 4,661 million (31 December 2014: UAH 781 million).

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

	Note	31 December 2015		31 December 2014	
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	28	5,831	5,791	31,139	31,120
Loans and advances to customers	10, 16	402	14	256	98
Mandatory reserve balances with the NBU, premises and loans and advances to customers	8, 10, 12, 13	46,077	27,079	50,206	18,357
Total		**52,310**	**32,884**	**81,601**	**49,575**

Gross receivables under swap, forward and spot agreements presented above are 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.

Mandatory reserve balances in the amount of UAH 287 million (31 December 2014: UAH 446 million) 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 other banks of UAH 1,574 million (31 December 2014: UAH 1,022 million) have been pledged as cover for letters of credit and international payments.

As of 31 December 2014 amount of guarantee deposits with other banks of UAH 12,063 million represents a guarantee deposit with the OECD bank that is pledged under the loan issued by this OECD bank to a corporate client. These loan proceeds were used by corporate client to purchase Bank's UAH denominated bonds. The bonds had a condition of compensation in the case of the official exchange rate of UAH devaluation against USD. Refer to Note 29.

As of 31 December 2015 the remaining amount of guarantee deposits with other banks of UAH 1,855 million represents a guarantee deposit with the OECD bank that is pledged under the loan issued by this OECD bank to a corporate client. These loan proceeds were used by corporate client to purchase the Bank's Eurobonds. In March 2016, following the requirement of the Bank's Restructuring Plan (refer to Note 4), the guarantee deposit was returned, as the loan issued by this OECD bank was repaid by one of the Bank's borrowers through issue of new loan in 2015.

28 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

	31 December 2015		**31 December 2014**	
In millions of Ukrainian hryvnias	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange swaps and spots: fair values, at the end of the reporting period date, of				
- USD receivable on settlement (+)	3,801	144	-	10,048
- USD payable on settlement (-)	(1,572)	(209)	(20,450)	(506)
- Euros receivable on settlement (+)	1,678	65	20,597	1
- Euros payable on settlement (-)	(1,142)	-	(30)	(9,107)
- UAH payable on settlement (-)	(2,595)	(146)	-	(984)
- RUB receivable on settlement (+)	-	27	-	493
- RUB payable on settlement (-)	(127)	-	(43)	-
- Other currencies receivable on settlement (+)	-	116 -	-	-
Net fair value of foreign exchange swaps, forwards and spots	**43**	**(3)**	**74**	**(55)**

At 31 December 2015, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 1,830 million (31 December 2014: UAH 29,546 million). The net fair value of unsettled spot transactions is insignificant.

During the year ended 31 December 2015 the Group incurred a loss of UAH 293 million (2014: a gain UAH 37 million) resulting from foreign exchange spots, forwards and swaps that is accounted for in other gains less losses of the consolidated statement of profit or loss and other comprehensive income.

As disclosed in Note 4, 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 (31 December 2014: UAH 19,978 million). This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 15.75 to UAH 30.01 per USD 1 (31 December 2014: from UAH 7.99 to UAH 15.85 per USD 1).

In addition, as at 31 December 2014 the Group had outstanding derivatives embedded in private placements of UAH bonds, which were separated from the host instrument and carried at fair value of UAH 10,047 million (31 December 2015: nil). The balance was revalued and repaid in 2015. This embedded derivative was represented by a currency option maturing in 3 months after the year-end. The strike price was UAH 8.53 per USD 1. Refer to Notes 4 and 29.

During 2015 an embedded derivative liabilities, arising from the customer accounts, were recognised in the amount of UAH 3,947 million and repaid. Those customer accounts were received in UAH with the condition of compensation to be paid by the Bank in the event that the official exchange rate of UAH depreciates against USD.

29 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 level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2015				31 December 2014			
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	177	-	-	177	277	-	-	277
Banking bonds	-	-	-	-	-	-	-	-
Unquoted shares	-	1,883	-	1,883	-	985	-	985
Embedded derivative assets	-	-	30,673	30,673	-	-	19,978	19,978
Other financial assets								
Financial derivatives arising from swap, forward and spot transactions	-	-	43	43	-	-	74	74
NON-FINANCIAL ASSETS								
Premises	-	-	2,294	2,294	-	-	2,116	2,116
TOTAL ASSETS RECCURING FAIR VALUE MEASUREMENT	**177**	**2,121**	**33,010**	**35,308-**	**277**	**985**	**22,168**	**23,430**
FINANCIAL LIABILITIES AT FAIR VALUE								
Embedded derivative liabilities	-	-	-	-	-	-	10,047	10,047
Other financial liabilities								
Financial derivatives arising from swap, forward and spot transactions	-	-	3	3	-	-	55	55
TOTAL LIABILITIES RECCURING FAIR VALUE MEASUREMENTS	**-**	**-**	**3**	**3**	**-**	**-**	**10,102**	**10,102**

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

29 Fair Value of Financial Instruments (Continued)

Embedded derivative assets and liabilities are classified into level 3 instruments because these instruments require management to make assumptions about credit risk of the counterparty which are not supportable by observable market data.

A reconciliation of movements in Level 3 of the fair value hierarchy of the embedded derivative assets for the twelve-month period ended 31 December 2015 and 2014 is as follows:

In millions of Ukrainian hryvnias	**Embedded derivatives**
Fair value at 1 January 2014	**3,816**
Initial recognition of derivative	1,912
Cash received	(2,519)
Gains less losses from embedded derivative assets	16,769
Fair value of embedded derivative assets at 31 December 2014	**19,978**
Initial recognition of derivative	2,029
Cash received	(1,005)
Gains less losses from embedded derivative assets	9,671
Fair value of embedded derivative assets at 31 December 2015	**30,673**

In addition to the amount of gains less losses from embedded derivatives disclosed above, the Group recognised a loss of UAH 10,047 million in respect of embedded derivative liabilities as disclosed in Note 4 and 30 in its in profit or loss for 2014. In 2015, revaluation gain was recognised in the amount of UAH 793 million at final repayment of these embedded derivative liabilities.

During 2015 an embedded derivative liabilities, arising from the customer accounts, were recognised in the amount of UAH 3,947 million and repaid. Those customer accounts were received in UAH with the condition of compensation to be paid by the Bank in the event that the official exchange rate of UAH depreciates against USD.

The fair value valuation of embedded derivative assets and liabilities is reviewed on a regular basis by the Bank. The management considers the appropriateness of the valuation model inputs, as well as the valuation result. Embedded derivative assets and liabilities arise in the loan agreements and private placements of UAH bonds, respectively issued at fixed interest rates in local currency (UAH) but indexed to changes in UAH/USD exchange rate. The embedded derivatives are valued at the net present value of estimated future cash flows. The fair value model is based on the observable data, such as expected UAH/USD exchange rates, discount rate and non-observable data such as credit risk.

The expected UAH/USD exchange rates are provided by the Treasury. These rates are supported by the forecasts of reputable international agencies and ranged from 22 to 29 UAH/USD exchange rates for the next year. The used discount rate is calculated by the Treasury and represents a weighted coupon rates on available quoted bonds adjusted for risk premium which were issued in the Ukrainian market during the reporting period. The credit risks are determined by the Risk-Management Division on the individual basis for each borrower.

As at 31 December 2015 the management used the following inputs: expected exchange rates from 23.49 UAH/USD to 25.71 UAH/USD (31 December 2014: from 16.47 UAH/USD to 21.72 UAH/USD), discount rate of 16.40% (31 December 2014: 15.96%) and average provision under the credit risk for embedded derivative asset of 65.17% (31 December 2014: 71.12%). The sensitivity to valuation assumptions is disclosed in the Note 4.

29 Fair Value of Financial Instruments (Continued)

Economic and business sector risk concentrations within the financial derivative are as follows:

	31 December 2015		31 December 2014	
In millions of Ukrainian hryvnias	Amount	%	Amount	%
Manufacturing and chemicals	2,605	8	9,448	47
Ferroalloy trading and production	7,956	26	5,960	30
Oil trading	11,721	38	3,503	18
Ski resort, tourism and football clubs	7,912	26	-	-
Agriculture, agriculture machinery and food industry	150	-	138	1
Air transportation	78	1	68	-
Other	251	1	861	4
Total embedded derivative assets	**30,673**	**100**	**19,978**	**100**

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 fair value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the fair value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2015:

	Over-collateralised assets		Under-collateralised assets	
In millions of Ukrainian hryvnias	Fair value of the derivative	Expected cash flows from collateral realisation	Fair value of the derivative	Expected cash flows from collateral realisation
Corporate loans	30,596	34,606	77	49

The effect of collateral at 31 December 2014:

	Over-collateralised assets		Under-collateralised assets	
In millions of Ukrainian hryvnias	Fair value of the derivative	Expected cash flows from collateral realisation	Fair value of the derivative	Expected cash flows from collateral realisation
Corporate loans	19,428	20,667	550	390

The fair value of financial derivatives arising from swap, forward and spot transactions 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.

29 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 2015				31 December 2014			
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 other banks								
Placements with other banks	-	-	260	260	-	-	2,502	2,502
Guarantee deposits with other banks	-	-	3,429	3,429	-	-	13,083	13,083
Loans and advances to customers								
Corporate loans	-	-	163,697	167,915	-	-	130,967	134,620
Loans to individuals - cards	-	-	18,052	18,052	-	-	19,354	19,354
Loans to individuals - mortgage	-	-	6,197	6,202	-	-	4,524	4,487
Loans to individuals - auto	-	-	142	276	-	-	224	243
Loans to individuals - consumer	-	-	30	26	-	-	127	131
Loans to individuals - other	-	-	1,008	1,012	-	-	984	984
Loans to small and medium enterprises (SME)	-	-	1,278	1,335	-	-	1,450	1,454
Finance lease receivables	-	-	537	521	-	-	624	557
Investment securities held to maturity								
Government bonds	762	-	-	734	606	-	-	596
Corporate bonds	31	-	-	31	32	-	-	32
Banking bonds	1	-	-	1	20	-	-	20
Financial assets included in non-current assets held for sale (or disposal groups)	-	-	192	192	-	-	2,539	2,539
Other financial assets								
Receivables from disposal of subsidiary	-	-	45	45	-	-	590	590
Receivables from operations with customers	-	-	29	29	-	-	71	71
Plastic cards receivables	-	-	22	22	-	-	13	13
Other	-	-	150	150	-	-	114	114
TOTAL	**794**	**-**	**195,068**	**200,232**	**658**	**-**	**177,166**	**181,390**

In 2014 financial assets included in non-current assets held for sale (or disposal groups) are represented by loans and advances to customers and other financial assets.

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

29 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 2015				31 December 2014			
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	-	27,079	-	27,079	-	18,357	-	18,357
Due to other banks and other financing institutions								
Term placements of other banks	-	912	1,286	2,258	-	843	1,721	2,564
Long-term loans under the credit lines from other financing institutions	-	-	1,655	1,654	-	-	-	-
Correspondent accounts and overnight placements of other banks	-	560	-	560	-	711	-	711
Pledge deposits of other banks	-	-	4	4	-	-	4	4
Customer accounts								
Term deposits of individuals	-	-	112,767	111,773	-	-	91,422	91,080
Current/demand accounts of individuals	-	32,418	-	32,418	-	22,521	-	22,521
Current/settlement accounts of legal entities	-	30,610	-	30,614	-	23,602	-	23,488
Term deposits of legal entities	-	-	17,780	17,105	-	-	15,509	14,964
Debt securities in issue								
Private placements of bonds	-	-	-	-	-	2,015	-	2,015
Eurobonds	6,232	-	-	9,131	3,546	-	-	5,874
Mortgage bonds	14	-	-	14	98	-	-	98
Liabilities directly associated with disposal groups held for sale	-	-	-	-	-	-	3,124	3,124
Other financial liabilities								
Funds in the course of settlement	-	-	54	54	-	-	19	19
Accounts payable	-	-	202	202	-	-	158	158
Other	-	-	748	748	-	-	495	495
Subordinated debt								
Subordinated debt	-	3,222	4,301	9,466	-	1,270	3,031	5,450
TOTAL	**6,246**	**94,801**	**138,797**	**243,080**	**3,644**	**69,319**	**115,483**	**190,922**

In 2014 financial liabilities included in liabilities directly associated with disposal groups held for sale are represented by customer accounts, due to other banks and other financial institutions and other financial liabilities.

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.

29 Fair Value of Financial Instruments (Continued)

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.

30 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 2015:

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	35,609	-	-	-	-	35,609
Other financial assets at fair value through profit or loss	-	-	238	-	-	238
Due from other banks						
Placements with other banks	260	-	-	-	-	260
Guarantee deposits with other 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 Presentation of Financial Instruments by Measurement Category (Continued)

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

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

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	19,582	-	-	-	-	19,582
Due from other banks						
Placements with other banks	2,502	-	-	-	-	2,502
Guarantee deposits with other banks	13,083	-	-	-	-	13,083
Loans and advances to customers						
Corporate loans	134,620	-	-	-	-	134,620
Loans to individuals - cards	19,354	-	-	-	-	19,354
Loans to individuals - mortgage	4,487	-	-	-	-	4,487
Loans to individuals - auto	243	-	-	-	-	243
Loans to individuals - consumer	131	-	-	-	-	131
Loans to individuals - other	984	-	-	-	-	984
Loans to small and medium enterprises (SME)	1,454	-	-	-	-	1,454
Finance lease receivables	-	-	-	-	557	557
Embedded derivative assets	-	-	19,978	-	-	19,978
Investment securities available-for-sale						
Government bonds	-	277	-	-	-	277
Unquoted shares	-	985	-	-	-	985
Investment securities held-to-maturity						
Government bonds	-	-	-	594	-	594
Banking bonds	-	-	-	54	-	54
Other financial assets						
Receivables from disposal of subsidiary	588	-	-	-	-	588
Receivables from operations with customers	65	-	-	-	-	65
Plastic cards receivables	13	-	-	-	-	13
Financial derivatives arising from swap, forward and spot	-	-	82	-	-	82
Other	114	-	-	-	-	114
TOTAL FINANCIAL ASSETS	**197,220**	**1,262**	**20,060**	**648**	**557**	**219,747**
NON-FINANCIAL ASSETS						**5,425**
TOTAL ASSETS						**225,172**

31 Related Party Transactions

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.

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

	31 December 2015			31 December 2014		
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, net (contractual interest rate: 2015: UAH - 16%, USD - 11%, EUR - 10%; 2014: UAH - 15%, USD - 17%, EUR - 15%)	-	6	34,503	-	1	18,530
Loans and advances to customers written off as uncollectable	-	-	(516)	-	-	(1,576)
Embedded derivative assets	-	-	6,572	-	-	449
Investment securities available-for-sale	-	-	1	-	-	-
Other financial assets	-	-	-	-	-	2
Other assets	-	-	-	-	-	63
Customer accounts (contractual interest rate: 2015: UAH - 5%, USD - 9%, EUR - 9%; 2014: UAH - 6%, USD - 11%, EUR - 8%)	1,145	241	3,288	1,024	168	3,324
Due to other banks and other financial institutions	-	-	1,641	-	-	-
Subordinated debt (contractual interest rate: 2015: USD - 11%, EUR - 6%; 2014: USD - 6%)	-	-	2,251	-	-	206
Other financial liabilities	-	-	3	-	-	-

This note is prepared in accordance with the requirements of International Financial Reporting Standard IAS 24 Related Parties (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 (Continued)

The income and expense items with related parties for the year ended 31 December 2015 and 2014 were as follows:

	2015			2014		
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	-	-	3,403	-	-	2,234
Interest expense	(90)	(63)	(704)	(85)	(10)	(430)
Provision for loan impairment	-	-	(285)	-	-	(364)
Fee and commission income	-	-	52	-	-	45
Losses less gains from financial derivatives	-	-	2,574	-	-	(37)
Foreign exchange translation gains less losses	-	-	7,285	-	-	7,265
Other operating income	-	-	14	-	-	12
Administrative and other operating expenses, excluding management remuneration	-	-	(102)	-	(295)	(234)

At 31 December 2015 and 2014, other rights and obligations with related parties were as follows:

	31 December 2015	31 December 2014
In millions of Ukrainian hryvnias	**Companies under control of major shareholders**	**Companies under control of major shareholders**
Guarantees issued	49	76
Irrevocable commitments to extend credit	17	-
Import letters of credit	5	143
Total credit related commitments and financial guarantees	**71**	**219**

Aggregate amounts lent to and repaid by related parties during 2015 and 2014 were:

	2015			2014		
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	-	25	9,758	-	21	12,825
Amounts repaid by related parties during the period	-	25	12,118	-	20	11,704

In 2014 the Bank sold to related party assets of total aggregate amount of UAH 8,060 million and liabilities of total aggregate amount of UAH 8,215 million related to Crimea.

In 2015, the remuneration of the members of the Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 18 million (31 December 2014: UAH 18 million), including contributions into the State pension fund of UAH 1 million (31 December 2014: UAH 1 million).

31 Related Party Transactions (Continued)

In addition, in 2014 majority shareholders of the Group offered the opportunity to purchase about 2 million shares of PrivatBank to key management personnel and other managers of the Group with a discount to the nominal value of shares for services provided by top managers to PrivatBank Group. No vesting conditions were in place. The fair value of share grant of UAH 295 million being the difference between the fair value of shares and cost to purchase these shares for management was recognised as a remuneration of top management of the Group for the services provided to the Group within the administrative and other operating expenses. The Group determined the fair value of shares as at the date of share grant using a valuation technique by estimating the price of these equity instruments that would have been set in an arm's length transaction between knowledgeable, willing parties. The significant inputs into the valuation technique were net assets of the Group and price / book value ratio of publicly traded banks adjusted for the factors and assumptions that knowledgeable, willing market participants would consider in setting the price. As at the date of share grant exercise price was about UAH 95 per share. Out of this amount, UAH 230 million relates to the key management personnel remuneration. As a result of this transaction management of the Group owns 8.95% of shares of PrivatBank.

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

As of 31 December 2015 assets under trust management amounted to UAH 1,054 million (31 December 2014: nil). Refer to Note 27.

32 Events After the End of the Reporting Period

In February – March 2016 the NBU has signed the Restructuring Plan, main provisions and requirements of which are disclosed in Note 4. In accordance with this Restructuring Plan, one of the Group's shareholders, Mr. I.V.Kolomoyskiy, reconfirmed previously issued personal guarantee confirming his commitment to support the Bank in its adherence to the Restructuring Plan, including additional capitalisation.

As one of the requirements of the Restructuring Plan, the Bank repays UAH 650 million monthly instalments starting from March. In January – June 2016 the Bank repaid interest and principal to the NBU in amount of UAH 5,640 million. Refer to Notes 4 and 13.

In April 2016 the Bank concluded additional agreements with the NBU to postpone the repayment of refinancing loans of UAH 6,577 million with initial maturity of February, March 2015 till August 2017.

Following the Restructuring Plan requirements, during March-June 2016 the Bank repossessed collateral to settle loans and advances to customers and embedded deriveatives of a total value of UAH 31,845 million as at the date of repossession.

In millions of Ukrainian hryvnias	**Repossessed collateral**	**Loans and advances to customers**	**Embedded derivative assets**
Ski resort	10,020	2,918	7,102
Tank farms	8,528	8,528	-
Giant tire plant	4,959	4,959	-
Hotel complexes	4,120	4,120	-
Sport complexes	1,517	1,517	-
Other real estate	2,701	2,701	-
Total confiscated collateral	**31,845**	**24,743**	**7,102**

32 Events After the End of the Reporting Period (Continued)

On 1 March 2016 the Board of AS PrivatBank adopted a decision to approve the issue of 6 000 000 new shares, which was announced at the extraordinary General Shareholders Meeting on 21 December 2015. All newly issued shares were purchased by the current shareholders of AS PrivatBank. As the result of the share issue, the share capital of AS PrivatBank increased to 86 349 556 EUR. Changes in the share capital of AS PrivatBank were registered with the Commercial Register of the Register of Enterprises of the Republic of Latvia. Given that PJSC CB PrivatBank, as the parent company of AS PrivatBank didn't participated in the new share issue, its share in the capital of Latvian subsidiary diluted to 46,54%. Despite these changes, the Group still is one of the largest shareholders of AS PrivatBank and continues to exercise control over its Latvian subsidiary.

In October 2015 the Group received UAH denominated subordinated debt of USD 70 million (UAH 1,491 million at the exchange rate at the date of issue) at contractual rate of 11% per annum payable every six months with contractual maturity in February 2021. Subsequently to the year end this subordinated debt was registered by the NBU, however without permission to include it the Tier 2 capital and, hence, was reclassified into due to other banks and other financial institutions as at 31 December 2015 as the Group has considered it as an adjustable event. Terms and conditions have not been changed.

In June 2015 the Group received USD denominated subordinated debt of USD 80 million (UAH 1,694 million at the exchange rate at the date of issue) at contractual rate of 11% per annum payable every month with contractual maturity in June 2020. The Group plans to transfer this subordinated debt into the share capital subject to the approval by the next Shareholders Meeting.

Customer accounts inflow during January – May 2016, net of the impact of currency revaluation, amounted to UAH 2,815 million or 1.5% of customer accounts' balance as at 31 December 2015.

According to the NBU regulation No.342 "On resolving the situation in the money and foreign exchange markets of Ukraine" dated 7 June 2016 banks are required to limit the withdrawal of cash through cash desks and ATMs by UAH equivalent of 100,000 in foreign currencies until 14 September 2016. The restriction on withdrawal of cash in hryvnia from bank accounts has been completely removed (previously a UAH 500,000 daily limit was in place).