Public Joint-Stock Company
"BTA BANK"
Financial Statements

for the Year Ended 31 December 2014
together with Independent Auditor's Report

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2014

Management is responsible for the preparation of the financial statements that present fairly the financial position of PUBLIC JOINT-STOCK COMPANY "BTA BANK" (the "Bank") as at 31 December 2014, and the results of its operations, cash flows, and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Bank's financial position and financial performance;
- Stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Making an assessment of the Bank's ability to continue as a going concern in the foreseeable future.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with the legislation of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

The financial statements of the Bank for the year ended 31 December 2014 were approved and authorized for issue by the Bank's Management Board on 31 March 2015.

On behalf of the Bank's Management Board:

Sierogin K. V. — Chairperson of the Management Board

Latun O. V. — Chief Accountant

31 March 2015

The notes on pages from 7 to 59 form an integral part of these financial statements.

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INDEPENDENT AUDITOR'S REPORT

To Shareholders and the Management Board of PUBLIC JOINT-STOCK COMPANY "BTA BANK":

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY "BTA BANK" (the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the 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 Bank'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 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

As discussed in Other Matter paragraph below, as at 31 December 2013 another auditor was unable to obtain sufficient appropriate audit evidence about the need to adjust the fair value of non-residential premises included in investment property in the amount of UAH 95,303 thousand. It is impracticable to determine the impact of this issue on the profit and deferred income tax expense for the year ended 31 December 2013, as well as equity as at 31 December 2013. Our opinion on the financial statements for the year ended 31 December 2014 is also modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures for the prior year.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw your attention to Note 2 to the financial statements. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Bank. Our opinion is not qualified in respect of this matter.

The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Note 3 to the financial statements, during the reporting period, the Bank had a cumulative liquidity gap up to 1 year and cash outflows from operating activities, which raises a substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 3 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

We draw attention to Note 5 to the financial statements which describes the restatement of corresponding figures for the year ended 31 December 2013. Our opinion is not qualified in that respect.

Other Matter

The financial statements of PUBLIC JOINT-STOCK COMPANY "BTA BANK" for the year ended 31 December 2013 were audited by another auditor who expressed a qualified opinion on those statements on 26 March 2014 due to inability to obtain sufficient appropriate audit evidence about the need to adjust the fair values of certain non-residential premises included in investment property.

As part of our audit of the financial statements for the year ended 31 December 2014, we also audited the adjustments described in Note 5 that were applied to amend the 2013 corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of PUBLIC JOINT-STOCK COMPANY "BTA BANK" for the year ended 31 December 2013, other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended 31 December 2013 taken as a whole.

Deloitte & Touche

31 March 2015

STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

(in Ukrainian Hryvnias and in thousands)

	Notes	2014	2013 (restated)	2012 (restated)
Assets				
Cash and cash equivalents	8	239,162	380,650	542,922
Obligatory reserve deposit with the National Bank of Ukraine	9	-	32,405	19,196
Due from banks	9	7,179	1,703,454	403,709
Financial assets at fair value through profit or loss	10	162,988	9,462	16,898
Loans to customers	11	728,004	756,390	1,074,656
Financial assets available for sale	12	25,563	305,993	70 385
Investment property	13	1,324,948	1,358,330	435,440
Property and equipment	14	66,634	32,250	736,898
Intangible assets	14	117	198	596
Non-current assets held for sale	15	22,820	16,027	25,374
Deferred tax asset	16	-	-	8,266
Current income tax receivable		2,086	1,989	29
Other financial assets	17	559	1,323	1,348
Other assets	17	165,983	170,920	188,632
Total assets		**2,746,043**	**4,769,391**	**3,524,349**
Liabilities				
Loans from the National Bank of Ukraine	19	271,167	-	-
Due to banks	19	223,679	1,904,401	757,355
Financial liabilities at fair value through profit or loss	10	-	65	973
Customer accounts	20	684,033	1,357,034	1,401,915
Deferred tax liabilities	16	35,547	21,065	-
Current income tax payable		-	-	332
Other financial liabilities	17	2,381	506	6,637
Other liabilities	17	27,196	22,872	16,567
Total liabilities		**1,244,003**	**3,305,943**	**2,183,779**
Equity				
Share capital	21	1,508,983	1,508,983	1,508,983
Additional paid-in capital	21	9,240	9,240	9,240
Accumulated losses		(63,735)	(75,487)	(215,827)
Reserve and other funds	21	27,647	-	33,093
Revaluation reserves	21	19,905	20,712	5,081
Total equity		**1,502,040**	**1,463,448**	**1,340,570**
Total liabilities and equity		**2,746,043**	**4,769,391**	**3,524,349**

Signed and authorized for issue on behalf of the Bank's Management Board:

Sierogin K. V. Chairperson of the Management Board

Latun O. V. Chief Accountant

31 March 2015

The notes on pages from 7 to 59 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS

for the Year Ended 31 December 2014

(in Ukrainian Hryvnias and in thousands)

	Notes	*2014*	*2013 (restated)*
Interest income			
Loans to customers		103,885	190,210
Financial assets available for sale		22,741	17,131
Due from banks		9,177	21,521
	23	**135,803**	**228,862**
Interest expense			
Customer accounts		(97,084)	(133,861)
Loans from the National Bank of Ukraine		(27,233)	-
Due to banks		(21,831)	(43,805)
		(146,148)	**(177,666)**
Net interest (expense)/income		**(10,345)**	**51,196**
Allowances for impairment of interest bearing assets	9, 11	(144,739)	(7,158)
Net interest (expense)/income after allowance for impairment of interest bearing assets		**(155,084)**	**44,038**
Fee and commission income		19,308	15,407
Fee and commission expense		(5,167)	(4,280)
Net fee and commission income	**24**	**14,141**	**11,127**
Trading (losses)/gains on transactions with financial assets available for sale		(7,074)	21
Net gain on transactions with financial assets and liabilities at fair value through profit or loss	25	186,949	7,700
Net result on foreign currency transactions			
- dealings		(19,135)	(1,412)
- translation differences		69,415	(8,918)
Gain on derecognition of financial liability due to significant modification of terms and conditions	19	-	177,672
Rental and other income		154,605	109,757
Other non-interest income		**384,760**	**284,820**
Staff costs	26	(69,831)	(63,075)
Depreciation and amortization	14	(5,802)	(17,896)
Other operating expenses	26	(113,044)	(122,158)
Allowances for impairment of other assets and liabilities	18	(1,304)	(2,092)
Other non-interest expense		**(189,981)**	**(205,221)**
Profit/(loss) before income tax		**53,836**	**134,764**
Income tax expense	16	(14,559)	(27,648)
Profit for the year		**39,277**	**107,116**
Basic earnings per ordinary share for the year (UAH)		**1.96**	**5.36**
Diluted earnings per ordinary share for the year (UAH)		**1.96**	**5.36**

Signed and authorized for issue on behalf of the Bank's Management Board:

Sierogin K. V. Chairperson of the Management Board

Latun O. V. Chief Accountant

31 March 2015

The notes on pages from 7 to 59 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 31 December 2014

(in Ukrainian Hryvnias and in thousands)

	Notes	*2014*	*2013 (restated)*
Profit for the year		**39,277**	**107,116**
Other comprehensive income:			
Other comprehensive income that may be reclassified subsequently to profit or loss			
Net unrealized (losses)/gains on financial assets available for sale	21	(7,833)	425
Realized gains/(losses) on financial assets available for sale reclassified to the statement of profit or loss	21	7,074	(21)
Income taxes attributable to other comprehensive income	21	74	(8)
Net other comprehensive (loss)/income that may be reclassified subsequently to profit or loss		**(685)**	**396**
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment	21	-	18,415
Income taxes attributable to other comprehensive income	21	-	(3,049)
Net comprehensive income that will not be reclassified subsequently to profit or loss		**-**	**15,366**
Other comprehensive (loss)/income after income tax		**(685)**	**15,762**
Total comprehensive income for the year		**38,592**	**122,878**

Signed and authorized for issue on behalf of the Bank's Management Board:

Sierogin K. V. Chairperson of the Management Board

Latun O. V. Chief Accountant

31 March 2015

The notes on pages from 7 to 59 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the Year Ended 31 December 2014

(in Ukrainian Hryvnias and in thousands)

	Share capital	*Additional paid-in capital*	*Accumulated losses*	*Reserve and other funds of the Bank*	*Revaluation reserves*	*Total equity*
As at 31 December 2012	**1,508,983**	**9,240**	**(215,827)**	**33,093**	**5,081**	**1,340,570**
Total comprehensive income for the year	-	-	107,116	-	15,762	122,878
Cover for losses of prior years	-	-	33,093	(33,093)	-	-
Depreciation of revaluation reserve, net of taxes	-	-	131	-	(131)	-
As at 31 December 2013 (restated)	**1,508,983**	**9,240**	**(75,487)**	**-**	**20,712**	**1,463,448**
Total comprehensive income/(loss) for the year	-	-	39,277	-	(685)	38,592
Allocations to reserve and other funds	-	-	(27,647)	27,647	-	-
Depreciation of revaluation reserve, net of taxes	-	-	122	-	(122)	-
As at 31 December 2014	**1,508,983**	**9,240**	**(63,735)**	**27,647**	**19,905**	**1,502,040**

Signed and authorized for issue on behalf of the Bank's Management Board:

Sierogin K. V. Chairperson of the Management Board

Latun O. V. Chief Accountant

31 March 2015

STATEMENT OF CASH FLOWS
for the Year Ended 31 December 2014

(in Ukrainian Hryvnias and in thousands)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		187,289	218,568
Interest paid		(164,392)	(149,409)
Fee and commission income received		15,594	14,448
Fee and commission expense paid		(5,122)	(4,285)
Result from trading in foreign currency		(19,135)	13,032
Receipts from derivative financial instruments		18,306	-
Other operating income received		150,940	108,745
Staff costs paid		(71,472)	(62,931)
Other operating expense paid		(134,752)	(119,696)
Income taxes paid		(100)	(3,666)
Cash flows from operating activities before changes in operating assets and liabilities		**(22,844)**	**14,806**
Net (increase)/decrease in operating assets			
Obligatory reserve balance with the National Bank of Ukraine		32,408	(13,210)
Due from banks		2,214,849	(990,386)
Loans to customers		35,350	87,654
Other assets		20,534	10,981
Net increase/(decrease) in operating liabilities			
Due to banks		(1,910,920)	1,008,446
Customer accounts		(1,096,202)	(54,389)
Other liabilities		(6,373)	313
Net cash (used in)/from operating activities		**(733,198)**	**64,215**
Cash flows from investing activities			
Purchase of financial assets available for sale		(6,197,349)	(2,495,440)
Proceeds from disposal and repayment of financial assets available for sale		6,620,064	2,261,588
Purchase of investment property		(9)	(1,496)
Proceeds from disposal of investment property		32,188	783
Purchase of intangible assets		(106)	(195)
Purchase of property and equipment		(312)	(1,400)
Proceeds from disposal of property and equipment		6,560	1,468
Proceeds from disposal of non-current assets held for sale		2,262	7,345
Net cash flows generated from/(used in) investing activities		**463,298**	**(227,347)**
Effect of exchange rate changes on cash and cash equivalents		128,412	860
Net decrease in cash and cash equivalents		**(141,488)**	**(162,272)**
Cash and cash equivalents as at 1 January	**8**	**380,650**	**542,922**
Cash and cash equivalents as at 31 December	**8**	**239,162**	**380,650**

The notes on pages from 7 to 59 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the Year Ended 31 December 2014 (Continued)

(in Ukrainian Hryvnias and in thousands)

During the years ended 31 December 2014 and 2013, the Bank obtained non-cash settlement for uncollectible loans to customers of prior periods. These non-cash settlements were excluded from the statement of cash flows and presented separately below:

	2014	*2013*
Loans to customers settled by means of collateral repossession	47,249	195,819
Property received as a collateral	(47,249)	(195,819)

Signed and authorized for issue on behalf of the Bank's Management Board:

Sierogin K. V. Chairperson of the Management Board

Latun O. V. Chief Accountant

31 March 2015

1. Organization

PUBLIC JOINT-STOCK COMPANY "BTA BANK" (the "Bank") was incorporated on 10 December 1992. The Bank operates under a general banking license # 25 issued by the National Bank of Ukraine (the "NBU") on 14 October 2011, which provides the Bank with the right to conduct banking operations, including foreign currency transactions. The Bank also has the License for Depository Activities and the License for Custodial Services from the National Securities and Stock Market Commission the validity of which, effective from 12 October 2013, is indefinite. In 2014, the Bank obtained the Licenses for Professional Activities in the Stock Market – Trading in Securities: Brokerage and Dealer Activities issued by the National Securities and Stock Market Commission on 23 October 2014 the validity of which is indefinite starting from 24 October 2014.

The Bank accepts deposits from individuals and legal entities, extends credit, transfers payments in Ukraine and abroad, exchanges currencies, and provides other banking services to legal entities and individuals.

The Bank has been the participant of the Individual Deposit Guarantee Fund since 2 September 1999. The Fund is a state specialized institution that accumulates insurance contributions from Ukrainian banks. The Fund is responsible for covering the Bank's liabilities to individual depositors in the amount that does not exceed UAH 200 thousand per each depositor in the event of bankruptcy or cancellation of the banking license issued by the NBU (2013: UAH 200 thousand).

The Bank's head office is in Kyiv and, as at 31 December 2014, the Bank had 4 operational outlets (31 December 2013: 13).

The Bank's registered address is: 75 Zhylianska Str., Kyiv, Ukraine.

As at 31 December 2014, JSC "BTA Bank" (Kazakhstan) owned 49.9883% (2013: 49.9883%) of issued ordinary shares of the Bank. Pursuant to Resolution of the NBU's Commission for Supervision and Regulation of Banking Activities # 696 dated 28 October 2010, the National Bank of Ukraine prohibited to use voting rights under the purchased shares of PJSC "BTA BANK" to the following shareholders of the Bank:

- LLC "Investment and Industrial Group "Eurasia-Ukraine" in the amount of 1,998,344 shares, which makes up 9.9917% of the total shares of PJSC "BTA BANK";
- LLC "Afina Trade" in the amount of 1,999,999 shares, which makes up 9.9999% of the total shares of PJSC "BTA BANK";
- LLC "Absolute Investment" in the amount of 1,999,999 shares, which makes up 9.9999% of the total shares of PJSC "BTA BANK";
- SE "MP Invest" in the amount of 1,999,970 shares, which makes up 9.9999% of the total shares of PJSC "BTA BANK";
- SE "Jupiter Trade" in the amount of 1,999,910 shares, which makes up 9.9996% of the total shares of PJSC "BTA BANK";
- LLC "Drobo Trade Investment" in the amount of 3,191 shares, which makes up 0.016% of the total shares of PJSC "BTA BANK".

At the same time, pursuant to the NBU's Resolution # 220 dated 6 July 2011, the National Bank of Ukraine appointed Mr. Levkovskyi, A. P. as a trustee vested with the voting rights under the shareholdings of LLC "Investment and Industrial Group "Eurasia-Ukraine", LLC "Afina Trade", LLC "Absolute Investment", SE "MP Invest", SE "Jupiter Trade", and LLC "Drobo Trade Investment" and the right to participate in management of PJSC "BTA BANK".

As at 31 December 2014, individuals owned 0.0047% of issued ordinary shares of the Bank (2013: 0.0047%).

2. Operating environment in Ukraine

In 2014, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Ukraine had also suffered from the separatist movements and the collapse of law enforcement in Luhanska and Donetska regions.

The Ukrainian Hryvnia (the "UAH") has devalued against major foreign currencies. The National Bank of Ukraine introduced a range of stabilization measures aimed at limiting outflow of customer accounts from the banking system, improving liquidity of banks, stabilization of the exchange rate of UAH against major foreign currencies.

Significant external financing is required to support the economy. Stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

3. Going concern

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. Management and the shareholders have the intention to further develop the business of the Bank. For the year ended 31 December 2014, net interest expense after allowance for impairment of interest bearing assets amounted to UAH 155,084 thousand, cumulative liquidity gap up to one year amounted to UAH 220,187 thousand, and cash outflows from operating activities of the Bank amounted to UAH 733,198 thousand.

Management believes that the going concern assumption is appropriate for the Bank due to the following:

- Sufficient capital adequacy ratio of 57.90% (Note 31);
- Intention of the shareholders to further develop the business of the Bank.

The Bank's management intends to undertake all required measures to fulfill its Financial Recovery Plan approved by the NBU, in particular:

1) Increase the rate of return (with minimum risk exposures) on inter-bank transactions within the frame of managing the Bank's current liquidity;
2) Receive maximum level of yield (with minimum risk exposures) on securities transactions (the NBU's depository certificates, other financial instruments of the NBU);
3) Receive maximum profitability from operating leases of own premises;
4) Undertake measures on renegotiating non-performing loans to customers;
5) Continue efforts on the disposal of properties acquired by the Bank or used as a collateral that was repossessed as a result of claims for overdue loans;
6) Continue efforts on the repayment of bad debt balances accounted for on off-balance sheet accounts.

The accompanying cumulative gap reflects the estimated cash flows calculated by the Bank net of the historical data on minimum required balances on customer accounts in the amount of UAH 131,516 thousand (Note 29).

4. Basis of preparation

General information

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are prepared under the historical cost basis except as disclosed in the accounting policies below. For example, financial assets available for sale, derivative financial instruments, and investment property are carried at fair value, and property and equipment (other than furniture and fittings) are carried at revalued amounts.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In maintaining its accounting records, the Bank is governed by the Ukrainian legislation. These financial statements have been prepared from the Ukrainian statutory accounting records maintained in accordance with the regulations of the National Bank of Ukraine and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions, including reclassifications of certain assets and liabilities, income and expense to appropriate financial statement captions.

Hyperinflationary accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 "Financial Accounting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units that was effective as at 31 December 2000 by applying the relevant inflation consumer price indices to the historical cost, and that those restated amounts were used as a basis for accounting in subsequent periods.

The Bank presents items of its statement of financial position in the order of liquidity. Detailed summary on recovery or repayment of items within 12 months after the date of the statement of financial position (current) and over 12 months after the date of the statement of financial position (non-current) is presented in Note 29. The positions included in the Bank's financial statements are recorded in the currency that best reflects the economic substance of underlying events and conditions relevant to the Bank's activities ("functional currency"). The functional currency of these financial statements is Ukrainian Hryvnia ("UAH"). All values are rounded to the nearest UAH thousand, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss and the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank. In accounting for the transfer of financial assets that do not result in derecognition of such assets, the Bank does not offset the assets transferred and the underlying liabilities.

5. Restatements and reclassifications

Restatements:

In the course of preparing the financial statements for the year ended 31 December 2014, the Bank identified that, in 2013 it did not recognize the deferred tax liability in the total amount of UAH 25,708 thousand. The Bank corrected this error by restating the deferred tax liability for 2013:

	As previously reported	*Restatement*	*As presented as at 31 December 2013*
Statement of financial position as at 31 December 2013			
Deferred tax asset	4,643	(4,643)	-
Deferred tax liabilities	-	21,065	21,065
Accumulated losses	(49,779)	(25,708)	(75,487)
Statement of profit or loss for the year ended 31 December 2013			
Income tax expense	(1,940)	(25,708)	(27,648)
Statement of comprehensive income for the year ended 31 December 2013			
Total comprehensive income for the year	148,586	(25,708)	122,878
Statement of changes in equity for the year ended 31 December 2013			
Total comprehensive income for the year	132,824	(25,708)	107,116

Reclassifications:

In the course of preparing the financial statements for the year ended 31 December 2014, the Bank identified that embedded derivatives under foreign currency denominated loans were included in the statement of financial position into the item of loans to customers as at 31 December 2013 and 2012 and, in the statement of profit or loss, into the item of net result on foreign currency transactions for the years then ended. The Bank reclassified the respective balances and net result on transactions as at 31 December 2013 and 2012:

	As previously reported	*Reclassification*	*As reclassified as at 31 December 2013 and 2012*
Statement of financial position as at 31 December 2013			
Loans to customers	765,849	(9,459)	756,390
Financial assets at fair value through profit or loss	3	9,459	9,462
Statement of profit or loss for the year ended 31 December 2013			
Net result on foreign currency transactions			
- dealings	6,288	(7,700)	(1,412)
Net gain/(loss) on transactions with financial assets at fair value through profit or loss	-	7,700	7,700
Statement of financial position as at 31 December 2012			
Loans to customers	1,091,338	(16,682)	1,074,656
Financial assets at fair value through profit or loss	216	16,682	16,898

6. Summary of significant accounting policies

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently may reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at fair value through profit or loss or financial assets available for sale. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process, other than those reclassified to other categories of financial assets. Loans to customers granted by the Bank are initially recognized at fair value, plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example, where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized in the statement of profit or loss and the statement of comprehensive income in accordance with the nature of those losses. Subsequently, loans receivables are carried at amortized cost using the effective interest rate method. Loans and receivables from customers are carried net of any allowance for impairment losses.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables. After initial recognition, Financial assets available for sale are measured at fair value, with gains or losses being recognized as a separate component in the statement of comprehensive income until the investment is derecognized or is determined to be impaired, at which time the cumulative gain or loss previously reported in the statement of comprehensive income is included in the statement of profit or loss. Interest calculated using the effective interest rate method is recognized in profit or loss.

Investments in equity instruments that are not quoted in an active market and the fair value of which cannot be measured reliably are measured at cost, net the allowance for impairment losses.

Reclassification of financial assets

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

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU (excluding obligatory reserves), and due from banks that mature within ninety days from the date of origination and are free from contractual encumbrances.

Financial assets and liabilities at fair value through profit or loss

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) on transactions with derivative financial instruments. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognized in profit or loss.

If economic characteristics and risks of embedded derivatives are closely related to those of the host contract, then the derivative is not separated from the host contract and is accounted for in the same line in the statement of financial position. Any changes in fair values of the embedded derivative that is not separated from the host contract are recognized in the statement of profit or loss.

Loans from the National Bank of Ukraine, due to banks, and customer accounts

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include loans from the National Bank of Ukraine, due to banks, and customer accounts. Any gain or loss on initial recognition of borrowings received from shareholders is recognized as additional paid-in capital in equity. After initial recognition, loans from the National Bank of Ukraine, due to banks, and customer accounts are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the borrowings are derecognized, as well as through the amortization process.

If the Bank repays its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the statement of profit or loss.

Leases

Operating leases – the Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in other operating expenses.

Operating leases – the Bank as a lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Rental income from operating leases is recognized in the statement of profit or loss on a straight-line basis over the lease period as other income. The aggregate benefit of incentives is recognized as a reduction of rental income on a straight-line basis over the lease period. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

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

Due from banks and loans to customers

For due from banks and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated based on historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Financial assets available for sale

For Financial assets available for sale, the Bank assesses at each reporting date whether there is objective evidence that a financial assets or a group of financial assets is impaired.

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and a new loan is recognized;
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favorable terms for the borrower, then the loan is not recognized as impaired. The loan is not derecognized but a new effective interest rate is determined based on the remaining cash flows under the loan agreement;
- If the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the allowance charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, and their recoverable value is calculated using the loan's original or current effective interest rate.

Asset management

The Bank acts as an asset manager for a number of construction financing funds. The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognize liabilities relating to the funds under management, but assesses the need to recognize any provisions relating to additional guarantees issued by the Bank with respect to the activities of such funds. Funds under management are not legal entities under the laws of Ukraine. The management of fund activities is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

The Bank enters into credit related commitments, including 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, letters of credit, and commitments to provide a loan are initially recognized at their fair values, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to repay 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 each reporting date, the commitments to provide a loan at a below-market interest rate are measured at the higher of (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities, and Contingent Assets" and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

Taxation

The current income tax charge is calculated in accordance with the Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Following the initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed on a regular basis to ensure that the fair value of revalued assets does not differ significantly from their carrying amounts.

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

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve for property and equipment included in equity is transferred directly to retained earnings on a straight-line basis as the Bank uses the assets. On the retirement or disposal of the assets, the remaining revaluation reserve is immediately transferred to the retained earnings.

Property and equipment, other than buildings, are carried at cost, excluding the costs of day-to-day maintenance, less accumulated depreciation and any accumulated impairment.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	12–55
Furniture and fittings	2
Computer and office equipment	4–7
Vehicles	2–4

Expenditures for leasehold improvements are recognized as assets and charged to statements of profit or loss on a straight-line basis over the shorter of the applicable: lease term or the economic life of the leasehold improvement.

The assets' residual values, useful lives, and methods of depreciation are reviewed and adjusted, if appropriate, at the end of each reporting year.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the expenses in the period the costs are incurred. In situations where it can be clearly determined that the expenditures have resulted in an increase of the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of properties.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss in the year when the item is derecognized.

Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at historical cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognized as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognized as an expense as incurred.

Investment property

Investment property is property held to earn rental income or for capital appreciation rather than for use in the operating activities or for administrative purposes and which is not occupied by the Bank.

Investment property is initially recognized at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. The market value of the Bank's investment property is obtained from reports of independent and internal appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

The same investment property item may be allocated to completely separated parts that are used for different purposes: one part, to earn rental income or for capital appreciation, and the other, for use in the Bank's operating activities or for administrative purposes.

Such parts of investment properties should be accounted separately if they can be disposed of individually. If those parts cannot be disposed of individually, then such an item is recognized as investment property provided only an insignificant part of it (less than 25%) is held for the use in the Bank's operating activities or for administrative purposes.

Non-current assets classified as held for sale

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

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

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

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Retirement and other benefit obligations

The Bank does not have any pension arrangements separate from the State Pension System of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital contributions received before 31 December 2000 are recognized at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital. Additional paid-in capital also comprises gain on initial recognition of subordinated debt from the shareholders.

Reserves included in equity (other comprehensive income) in the Bank's statement of financial position comprise a fair value reserve for financial assets available for sale reflecting changes in the fair value of financial assets available for sale and a revaluation reserve for property and equipment consisting of the land and buildings revaluation reserve.

Reserve and other funds are created in accordance with the Ukrainian legislation to cover potential losses and other expenditures of the Bank. Reserve and other funds are created by allocating the Bank's net profits for the year (at least 5%) until the reserve and other funds reach 25% of the Bank's regulatory capital.

Contingencies

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

Recognition of income and expense

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income and expense

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as designated at fair value through profit or loss or available for sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fee and commission income and expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into the following two categories:

- *Fee and commission income received from and fee and commission expense paid for the services rendered (received) during a certain period*

Fees and commission income and expense earned for the provision of services (paid for the services received) over a period of time are accrued over that period. These fees include commission income (expense) and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee and commission income from and expense for the transaction services rendered (received)*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after meeting the corresponding criteria.

Changes in accounting policies

During the year, the Bank adopted the following new and revised IFRSs:

- Amendments to IFRS 10, IFRS 12, and IAS 27 "Investment Entities";
- Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities";
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets";
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting";
- Annual Improvements to IFRSs 2010–2012 Cycle;
- Annual Improvements to IFRSs 2011–2013 Cycle;
- IFRS IC 21 "Levies".

Amendments to IFRS 10, IFRS 12, and IAS 27 "Investment Entities"

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:

- Obtains funds from one or more investors for the purpose of providing them with investment management services;
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measures and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. The Bank's management believes the amendments on investment entities will not have any effect on the Bank's financial statements, as the Bank is not an investment entity.

Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities"

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

Management of the Bank believes the application of these amendments will not have a significant effect on the Bank's financial statements as the Bank does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal.

The amendments to IAS 36 affect disclosures only and, according to the Bank's management, their application will not have a significant effect on the Bank's financial statements as no impairment has been recognized in the financial statements.

Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"

The amendments to IAS 39 allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.

Management of the Bank anticipates the amendments will have no significant effect on the Bank's financial statements.

Annual Improvements to IFRSs 2010–2012 Cycle

Make amendments to the following standards:

- IFRS 2 – Amend the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition';
- IFRS 3 – Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date;
- IFRS 8 – Require disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly;
- IFRS 13 – Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only);
- IAS 16 and IAS 38 – Clarify that the gross amount of property, plant, and equipment is adjusted in a manner consistent with a revaluation of the carrying amount;
- IAS 24 – Clarify how payments to entities providing management services are to be disclosed.

Management of the Bank anticipates the application of these amendments will have no significant effect on the Bank's financial statements.

Annual Improvements to IFRSs 2011–2013 Cycle

Make amendments to the following standards:

- IFRS 1 – Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only);
- IFRS 3 – Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself;
- IFRS 13 – Clarify the scope of the portfolio exception in paragraph 52;
- IAS 40 – Clarify the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

Management of the Bank anticipates the application of these amendments will have no significant effect on the Bank's financial statements.

IFRS IC 21 "Levies"

The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12, and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognized when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date.

Management of the Bank believes that the application of IFRS IC 21 will have no significant effect on the Bank's financial statements.

Standards and Interpretations in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 "Financial Instruments" (2014)[1];
- IFRS 14 "Regulatory Deferral Accounts"[3];
- Annual Improvements to IFRSs 2012–2014 Cycle[3];
- IFRS 15 "Revenue from Contracts with Customers"[2];
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for acquisition of interests in joint operations[3];
- Amendments to IAS 16 "Property, Plant, and Equipment" and IAS 38 "Intangible Assets" – Clarification of acceptable methods of depreciation and amortization[3];
- Amendments to IAS 27 "Separate Financial Statements" – Equity method in separate financial statements[3];
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture[3].

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 9 "Financial Instruments" (2014)

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 "Financial Instruments: Recognition and Measurement". The Standard contains requirements in the following areas:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Management of the Bank anticipates that the application of IFRS 9 "Financial Instruments" in the future may have a significant impact on the amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 14 "Regulatory Deferral Accounts"

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

The application of IFRS 14 will not have any impact on the Bank's financial statements in the future as the Bank is not an IFRS first-time adopter.

Annual Improvements to IFRSs 2012–2014 Cycle

The Annual Improvements to IFRSs 2012–2014 Cycle include the following amendments to various IFRSs*:*

- IFRS 5 – The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation, and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.
- IFRS 7 – The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.
- IAS 34 – The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

Management of the Bank does not anticipate that the application of these amendments will have a significant effect on the Bank's financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. New disclosures about revenue are also introduced.

Management of the Bank does not anticipate that the application of IFRS 15 "Revenue from Contracts with Customers" will have a significant effect on the Bank's financial statements.

Amendments to IFRS 11 "Joint Arrangements" – Accounting for acquisitions of interests in joint operations

Amends IFRS 11 "Joint Arrangements" to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 "Business Combinations") to:

- Apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11;
- Disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured).

Management of the Bank does not anticipate that the application of IFRS 11 will have a significant effect on the Bank's financial statements.

Amendments to IAS 16 "Property, Plant, and Equipment" and IAS 38 "Intangible Assets" – Clarification of acceptable methods of depreciation and amortization

Amend IAS 16 "Property, Plant, and Equipment" and IAS 38 "Intangible Assets" to:

- Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant, and equipment;
- Introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated;
- Add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Management of the Bank does not anticipate that the application of the amendments to IAS 16 and IAS 38 will have a significant effect on the Bank's financial statements.

Amendments to IAS 27 "Separate Financial Statements" – Equity method in separate financial statements

Amend IAS 27 "Separate Financial Statements" to permit investments in subsidiaries, joint ventures, and associates to be optionally accounted for using the equity method in separate financial statements.

Management of the Bank does not anticipate that the application of the amendments to IAS 27 will have a significant effect on the Bank's financial statements.

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture

Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" (2011) clarify a process of sales or contributions of assets between an investor and its associate or joint venture, in particular, require:

- Full recognition in the investor's financial statements of gains and losses when a transaction relating to the sale or contributions of assets meets the definition of a business (as defined in IFRS 3 "Business Combinations");
- Partial recognition of gains and losses where assets do not represent a business, i.e. gains or losses are recognized only in relation to the interest of unrelated investors in such an associate or joint venture.

These requirements apply to any legal arrangement; e.g., irrespective whether a sale or contribution of assets relates to the transfer of shares of the subsidiary owned by the investor (resulting to a loss of its control over the subsidiary) or direct sales of the assets.

Foreign currency transactions

The financial statements are presented in Ukrainian Hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate translated at the official rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as net result from foreign currency transactions – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU's exchange rate on the date of the transaction are included in net result from foreign currency transactions. UAH exchange rates established by the NBU and used in the preparation of the financial statements were as follows:

	31 December 2014	*31 December 2013*
USD	15.768556	7.99300
EUR	19.232908	11.04153
RUB	0.30304	0.24497

7. Critical accounting judgments and key sources of estimation uncertainty

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements:

Fair value of financial instruments

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

Identification of inter-bank swap agreements

In 2014, the Bank entered into a number of inter-bank mutual placements in different currencies with other Ukrainian banks. The purpose of the majority of these deals was to provide short-term financing to other banks secured with a cash deposit received in return. The principal amounts of such placements and attractions and related interest rates on such deals may differ significantly. The Bank considers all these mutual placements to be derivative financial instruments and netted respective balances and income/expense.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers.

Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of property and equipment, investment property, and assets held for sale

As stated in Note 6, buildings of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of the valuation performed by independent appraisers. The basis for their valuation is the sales comparison approach, which is further confirmed by the income capitalization approach. When performing the revaluation, certain judgments and estimates are applied by the appraisers in determination of the comparison of property and equipment to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income capitalization approach.

As specified in Note 6, investment property includes property items that are partially used by the Bank in its operating activities or for administrative purposes. Double-purpose properties are included in investment property provided only an insignificant part of it is used not for investment purposes. Based on the historical experience, an insignificant part is considered by the Bank to be a space of less than 25% of the total space of such an item.

Recognition of asset on Value Added Tax

As at 31 December 2014, the Bank recognized an asset on Value Added Tax in the amount of UAH 133,433 thousand (2013: UAH 164,109 thousand) related to the Bank's acquisition of investment property. The Bank's management believes the Bank will receive sufficient amounts of taxable income that will allow realizing the VAT asset at the cost of current tax liabilities.

Allowances for impairment of other assets and liabilities

Assumptions and estimates related to the accrual of provisions for impairment of other assets and liabilities require significant estimates of management, since key assumptions used for both individual and collective assessment for impairment may change from period to period and materially affect the Bank's performance.

Related party determination

Determination of related parties requires that management apply significant estimates in defining relationships between related parties.

Other sources of uncertainty

While the Ukrainian government has introduced a range of stabilization measures aimed at providing liquidity to Ukraine's banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations, and business prospects.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

8. Cash and cash equivalents

Cash and cash equivalents comprised:

	2014	*2013*
Correspondent accounts with banks	146,416	79,500
Cash on hand	76,748	73,172
Current accounts with the NBU (other than obligatory reserve)	15,998	36,015
Time deposits with banks with maturities up to 90 days	-	191,963
Cash and cash equivalents	**239,162**	**380,650**

The current accounts with the NBU represent amounts deposited with the NBU relating to daily settlements and other activities. There are no restrictions on the withdrawal of funds from the current accounts with the NBU. As at 31 December 2014 and 2013, all cash and cash equivalents were neither past due nor impaired.

9. Due from banks and obligatory reserve deposit with the National Bank of Ukraine

	2014	*2013*
Obligatory reserve deposit with the National Bank of Ukraine	-	32,405

As at 31 December 2014, Ukrainian banks are not required to keep the obligatory reserve for the previous month on a separate account with the NBU (2013: 40%). The use of these funds in 2013 was restricted by the effective legislation.

Due from banks comprised:

	2014	*2013*
Guarantee deposits	7,179	9,185
Term deposits with banks	-	1,694,269
Total due from banks	**7,179**	**1,703,454**

As at 31 December 2014, guarantee deposits represented security deposits with one Ukrainian bank (2013: one Ukrainian bank) providing cover for plastic card transactions.

Allowance for impairment of due from banks

Reconciliation of the allowance for impairment of due banks was as follows:

	2014	*2013*
As at 1 January	**-**	**-**
Use for the year	-	(16,085)
Sale of loans	-	16,085
As at 31 December	**-**	**-**

10. Financial assets and liabilities at fair value through profit or loss

The Bank enters into trading transactions with derivative financial instruments. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their nominal amounts. The nominal amount, recorded gross, is the amount of a derivative's underlying asset, reference rate, or index and is the basis upon which changes in the value of derivatives are measured. The nominal amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	2014			*2013*		
	Nominal amount	*Fair value*		*Nominal amount*	*Fair value*	
		Assets	*Liabilities*		*Assets*	*Liabilities*
Foreign exchange agreements:						
Swaps	56,004	8,787	-	98,377	3	(65)
Total derivative assets/(liabilities)		**8,787**	**-**		**3**	**(65)**

As at 31 December 2014, included in financial assets at fair value through profit or loss were embedded derivatives under foreign currency denominated loans to customers at the fair value of UAH 154,201 thousand (2013: UAH 9,459 thousand). Change in the fair value of embedded derivatives for the year ended 31 December 2014 in the amount of UAH 144,742 thousand (2013: UAH 7,222 thousand) was recognized in net gain on transactions with financial assets at fair value through profit or loss.

11. Loans to customers

Loans to customers comprised:

	2014	*2013*
Loans to legal entities	1,025,650	967,629
Loans to individuals	55,957	48,488
Total loans to customers	**1,081,607**	**1,016,117**
Allowance for impairment of loans	(353,603)	(259,727)
Total loans to customers, less allowances	**728,004**	**756,390**

Allowance for impairment of loans to customers

Reconciliation of allowance for impairment of loans to customers by categories was as follows:

	Loans to legal entities	*Loans to individuals*	*Total*
Balance as at 31 December 2013	**254,155**	**5,572**	**259,727**
Charge for the year	131,124	13,615	144,739
Uncollectible amounts written off at the cost of allowance	(113,218)	(5,270)	(118,488)
Recoveries	47,181	4,887	52,068
Translation differences on allowances	15,557	-	15,557
Balance as at 31 December 2014	**334,799**	**18,804**	**353,603**
Individual impairment	326,238	14,882	341,120
Collective impairment	8,561	3,922	12,483
	334,799	**18,804**	**353,603**
Total amount of loans to customers individually determined to be impaired, before deducting any individually assessed allowance for impairment as at 31 December 2014	**948,489**	**44,013**	**992,502**

	Loans to legal entities	*Loans to individuals*	*Total*
Balance as at 31 December 2012	**253,880**	**21,147**	**275,027**
Charge/(use) for the year	35,878	(12,635)	23,243
Uncollectible amounts written off at the cost of allowance	(38,093)	(19,843)	(57,936)
Recoveries	2,490	16,903	19,393
Balance as at 31 December 2013	**254,155**	**5,572**	**259,727**
Individual impairment	254,152	2,629	256,781
Collective impairment	3	2,943	2,946
	254,155	**5,572**	**259,727**
Total amount of loans to customers individually determined to be impaired, before deducting any individually assessed allowance for impairment as at 31 December 2013	**902,628**	**29,290**	**931,918**

As at 31 December 2014, interest income accrued on the loans to customers, for which individual impairment allowances were recognized, amounted to UAH 69,966 thousand (2013: UAH 113,995 thousand).

In accordance with the Ukrainian legislation, loans may only be written off upon approval of the Management Board of the Bank and, in certain cases, based on the respective court decision.

Collateral and other credit enhancements

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

Main types of collateral obtained may include:

- For securities borrowing: cash or securities;
- For loans to legal entities: on commercial lending - mortgages of real estate properties, property and equipment, inventory, trade accounts receivable, and cash;
- For loans to individuals: mortgages of residential properties and movables, vehicles, and cash.

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

The following table summarizes the loans secured by respective collateral and not the fair value of collateral itself:

	2014	*2013*
Loans secured by real estate and property rights thereto	971,212	848,470
Loans secured by cash	108,896	70,414
Loans secured by equipment and other movables and property rights thereto	1,011	95,124
Unsecured loans	488	2,109
Total loans to customers	**1,081,607**	**1,016,117**
Allowance for impairment of loans	(353,603)	(259,727)
Total loans to customers, less allowances	**728,004**	**756,390**

Concentration of loans to customers

As at 31 December 2014, the Bank had a concentration of loans to customers due from ten largest borrowers in the amount of UAH 986,450 thousand (91% of the total loan portfolio, before provisions) (2013: UAH 806,597 thousand, or 80%). Those loans were provided for by the allowances in the amount of UAH 327,679 thousand (2013: UAH 250,713 thousand).

As at 31 December 2014, concentration of a loan to one borrower that exceeded 10% of the Bank's equity amounted to UAH 363,770 thousand (34% of the total loan portfolio, before provisions) (2013: UAH 346,074 thousand, or 34%).

Loans were granted principally within Ukraine in the following industry sectors:

	2014	*2013*
Agriculture and food processing	535,471	262,524
Services	387,632	393,136
Trading enterprises	99,847	216,865
Individuals	55,957	48,488
Manufacturing	2,700	64,783
Construction	-	13,928
Other	-	16,393
Total loans to customers	**1,081,607**	**1,016,117**
Allowance for impairment of loans	(353,603)	(259,727)
Total loans to customers, less allowances	**728,004**	**756,390**

12. Financial assets available for sale

Financial assets available for sale comprised:

	2014	*2013*
Debt securities issued by the National Bank of Ukraine	21,009	-
Corporate shares	4,554	4,554
Government bonds issued by the Ministry of Finance of Ukraine	-	301,439
Total financial assets available for sale	**25,563**	**305,993**

In 2013, government bonds issued by the Ministry of Finance of Ukraine were interest-bearing securities denominated in USD. Those bonds had the maturities from 21 May 2014 to 18 March 2015 and the coupon rate ranging from 7.97% to 9.2% p.a. and were partially repaid and partially sold in 2014.

13. Investment property

Movements in investment property were as follows:

	2014	*2013*
Fair value as at 1 January	**1,358,330**	**435,440**
Additions	9	85,869
Collateral repossession	-	120,542
Disposals	(33,391)	(1,006)
Transfers from non-current assets held for sale (Note 15)	-	19,743
Transfers from property and equipment (Note 14)	-	697,742
Fair value as at 31 December	**1,324,948**	**1,358,330**

Investment property comprises land plots, residential and non-residential property used as a collateral for loans to customers and not repossessed. Investment property is held to earn rentals or for capital appreciation or both, rather than for: use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

As at 31 December 2014 and 2013, part of the investment property in the amount of UAH 949,457 thousand (2013: UAH 251,701 thousand) was used as a collateral for the loan from the National Bank of Ukraine and for the amounts due to JSC "BTA Bank" (Kazakhstan) (Note 19).

The Bank transferred part of its investment property in operating leases. Future minimum payments under non-cancellable operating leases were as follows:

	2014	*2013*
Within 1 year	100,804	72,211
From 1 to 5 years	76,000	84,576
Total	**176,804**	**156,787**

During 2014, the Bank received rental income in the amount of UAH 103,601 thousand (2013: UAH 81,106 thousand) included in other income in the statement of profit or loss.

14. Property and equipment and intangible assets

Movements in property and equipment and intangible assets during 2014 were as follows:

	Buildings	*Leasehold improve-ments*	*Computer and office equipment*	*Furniture and fittings*	*Equip-ment*	*Vehicles*	*Construc-tion in progress*	*Intangible assets*	Total
Cost or revalued amounts									
As at 1 January 2014	**23,020**	**8,538**	**28,018**	**13,256**	**-**	**5,556**	**3,348**	**6,901**	**88,637**
Additions	-	3	147	156	47,249	-	-	111	47,666
Disposals	(5,462)	(3,212)	(2,928)	(3,079)	-	(2,334)	(630)	-	(17,645)
As at 31 December 2014	**17,558**	**5,329**	**25,237**	**10,333**	**47,249**	**3,222**	**2,718**	**7,012**	**118,658**
Accumulated depreciation and amortization									
As at 1 January 2014	**(1,531)**	**(7,418)**	**(26,065)**	**(10,176)**	**-**	**(4,296)**	**-**	**(6,703)**	**(56,189)**
Charges for the year	(347)	(555)	(750)	(707)	(2,953)	(298)	-	(192)	(5,802)
Disposals	272	2 652	2,707	2 935	-	1,518	-	-	10,084
As at 31 December 2014	**(1,606)**	**(5,321)**	**(24,108)**	**(7,948)**	**(2,953)**	**(3,076)**	**-**	**(6,895)**	**(51,907)**
Net book value									
As at 1 January 2014	**21,489**	**1,120**	**1,953**	**3,080**	**-**	**1,260**	**3,348**	**198**	**32,448**
As at 31 December 2014	**15,952**	**8**	**1,129**	**2,385**	**44,296**	**146**	**2,718**	**117**	**66,751**

Movements in property and equipment and intangible assets during 2013 were as follows:

	Buildings	*Leasehold improve-ments*	*Computer and office equip-ment*	*Furniture and fittings*	*Equip-ment*	*Vehicles*	*Construc-tion in progress*	*Intangible assets*	**Total**
Cost or revalued amounts									
As at 1 January 2013	**722,789**	**10,552**	**30,680**	**13,325**	-	**5,641**	**11,856**	**6,724**	**801,567**
Additions	54	52	304	125	-	812	53	195	1,595
Revaluation	18,415	-	-	-	-	-	-	-	18,415
Disposals	-	(2,067)	(1,880)	(1,322)	-	(897)	(8,561)	(11)	(14,738)
Transfers to investment property	(718,238)	-	-	-	-	-	-	-	(718,238)
Transfers between categories	-	1	(1,086)	1,128	-	-	-	(7)	36
As at 31 December 2013	**23,020**	**8,538**	**28,018**	**13,256**	**-**	**5,556**	**3,348**	**6,901**	**88,637**
Accumulated depreciation and amortization									
As at 1 January 2013	**(9,943)**	**(6,980)**	**(26,525)**	**(9,931)**	**-**	**(4,566)**	**-**	**(6,128)**	**(64,073)**
Charges for the year	(12,084)	(2,047)	(1,288)	(1,264)	-	(627)	-	(586)	(17,896)
Transfers to investment property	20,496	-	-	-	-	-	-	-	20,496
Disposals	-	1,609	1,748	1,019	-	897	-	11	5,284
As at 31 December 2013	**(1,531)**	**(7,418)**	**(26,065)**	**(10,176)**	**-**	**(4,296)**	**-**	**(6,703)**	**(56,189)**
Net book value									
As at 1 January 2013	**712,846**	**3,572**	**4,155**	**3,394**	**-**	**1,075**	**11,856**	**596**	**737,494**
As at 31 December 2013	**21,489**	**1,120**	**1,953**	**3,080**	**-**	**1,260**	**3,348**	**198**	**32,448**

Valuation of the Bank's buildings was performed by an independent appraiser as at 31 December 2014 and the fair value was determined by reference to market-based evidence. Since the difference between the fair value of buildings and their carrying amounts was insignificant (less than 10%), no revaluation was recognized in accordance with the accounting policies.

In March 2014, the Bank acquired plates and lead strip production lines for the total amount of UAH 47,249 thousand included in equipment. As at 31 December 2014, the lines were used in operating leases.

As at 31 December 2014, the carrying values of buildings would have amounted to UAH 3,301 thousand (2013: UAH 8,592 thousand), had the buildings been carried at cost less accumulated depreciation.

As at 31 December 2014, cost of fully depreciated items was as follows: computers and office equipment – UAH 20,366 thousand (2013: UAH 20,711 thousand), furniture and fittings – UAH 7,244 thousand (2013: UAH 9,153 thousand), vehicles – UAH 2,763 thousand (2013: UAH 3,325 thousand), intangible assets – UAH 6,736 thousand (2013: UAH 6,336 thousand). As at 31 December 2014 and 2013, the Bank had no idle property and equipment.

15. Non-current assets held for sale

Movements in non-current assets held for sale were as follows:

	2014	*2013*
As at 1 January	**16,027**	**25,374**
Additions	9,819	18,960
Transfers to investment property category (Note 13)	-	(19,743)
Disposals	(3,026)	(8,564)
As at 31 December	**22,820**	**16,027**

Non-current assets held for sale comprise the property acquired by the Bank or used as a collateral repossessed in recovery of past due loans to customers. As at 31 December 2014, none of the items was impaired.

During 2013, non-current assets held for sale with the carrying value of UAH 19,743 thousand were transferred to investment property (Note 13) as a result of changes in the Bank's intentions regarding those assets. The Bank decided to hold the property for the purpose of long-term capital appreciation and rental income, rather than to sell the property in the short-term perspective.

16. Taxation

Income tax expense comprised:

	2014	*2013*
Current income taxes	3	1,374
Deferred income taxes	14,482	29,331
Deferred taxes recognized in other comprehensive income	74	(3,057)
Income tax expense	**14,559**	**27,648**

The Law of Ukraine "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine Regarding Tax Reform" # 71-VIII dated 28 December 2014 cancelled the gradual decrease in corporate income tax rates and adopted the base income tax rate of 18% effective from 1 January 2015. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to be utilized.

The effective income tax rate differs from the statutory income tax rates. Reconciliation of the income tax expense based on the statutory tax rates and actual income tax expense was as follows:

	2014	*2013*
Profit before income tax	**53,836**	**134,764**
Statutory tax rate	18%	19%
Theoretical income tax expense at the statutory rate	**9,690**	**25,605**
Non-deductible expenditures	10,602	15,525
Non-taxable income	-	1,111
Effect of changes in tax rates	266	4,783
Changes in unrecognized deferred tax asset	-	(28,739)
Effect of changes in tax bases	(5,999)	9,363
Income tax expense	**14,559**	**27,648**

As at 31 December 2014 and 2013, deferred tax asset and liabilities and their movements for the respective years were as follows:

	2012	*Origination and reversal of temporary differences*		*2013*	*Origination and reversal of temporary differences*		*2014*
		in the statement of profit or loss	*in the statement of other compre-hensive income*		*in the statement of profit or loss*	*in the statement of other compre-hensive income*	
Tax effect of deductible temporary differences:							
Allowances for impairment and provisions for other losses	25,722	(21,131)	-	4,591	11,740	-	16,331
Tax losses carried forward	4,625	13,427	-	18,052	(12,095)	-	5,957
Fair value of financial assets available for sale	9,764	(6,715)	(8)	3,041	7,693	74	10,808
Property and equipment	21	(21)	-	-	-	-	-
Deferred tax asset, gross	**40,132**	**(14,440)**	**(8)**	**25,684**	**7,338**	**74**	**33,096**
Unrecognized deferred tax assets	(28,739)	28,739	-	-	-	-	-
Deferred tax asset	**11,393**	**14,299**	**(8)**	**25,684**	**7,338**	**74**	**33,096**
Tax effect of taxable temporary differences:							
Property and equipment	-	(8,801)	(3,049)	(11,850)	(1,792)	-	(13,642)
Accrued income and expense	(3,127)	(31,772)	-	(34,899)	(20,102)	-	(55,001)
Deferred tax liability	**(3,127)**	**(40,573)**	**(3,049)**	**(46,749)**	**(21,894)**	**-**	**(68,643)**
Recognized deferred tax asset/((liabilities)	**8,266**	**(26,274)**	**(3,057)**	**(21,065)**	**(14,556)**	**74**	**(35,547)**

In 2014, the effective tax legislation was not significantly amended with the changes that would have an impact on the taxation of banks, other than amendments to the taxation of securities operations (changed rates from 10% to 18%) and introduced pension charges on transactions of currency purchase on a cash and non-cash basis for banks.

Starting from 1 January 2015, the amendments came into effect which significantly changed general rules for assessment of an item of taxation and terms for submission of income tax returns, as well as amended the taxation procedure for provisioning and settling uncollectible debts, securities operations, and the procedure for recognition of VAT credit in respect of repossession by banks of the properties pledged.

17. Other assets and liabilities

Other financial assets comprised the following:

	2014	*2013*
Accrued income receivable	3,314	2,881
Operating leases receivable	1,108	1,468
Receivables on customer settlements	58	279
	4,480	**4,628**
Allowance for impairment losses (Note 18)	(3,921)	(3,305)
Total other financial assets, less provisions	**559**	**1,323**

Other assets comprised the following:

	2014	*2013*
Other taxes prepaid	133,763	165,904
Prepayments for rent, utilities, and other services	34,127	5,875
Due from ex-employees	3,815	3,331
Materials	1,007	925
Prepayments for property and equipment	283	355
Other assets	15	425
	173,010	**176,815**
Allowance for impairment losses (Note 18)	(7,027)	(5,895)
Total other assets, less provisions	**165,983**	**170,920**

As at 31 December 2014 and 2013, other taxes prepaid included also value added tax (VAT) credit related to repossessed investment property in the amount of UAH 133,433 thousand (2013: UAH 164,109 thousand) to be reimbursed at the cost of current tax liabilities (Note 22).

Other financial liabilities comprised the following:

	2014	*2013*
Payables on customer settlements	2,107	55
Payables for services received	148	262
Payables on payment card transactions	72	176
Provisions for irrevocable guarantees and undrawn loan commitments (Note 18)	54	13
Total other financial liabilities	**2,381**	**506**

Other liabilities comprised the following:

	2014	*2013*
Deferred income	17,233	11,343
Taxes payable, other than income tax	3,910	1,870
Unused vacation and other salary related accruals	3,323	4,976
Payables to Individual Deposit Guarantee Fund	1,514	3,252
Other	1,216	1,431
Total other liabilities	**27,196**	**22,872**

18. Allowances for impairment of other assets and liabilities

Movements in allowances for impairment of other assets and liabilities were as follows:

	Other financial assets	*Other assets*	*Other financial liabilities*	*Total*
As at 31 December 2012	**5,118**	**4,868**	**635**	**10,621**
Charges	1,065	1,027	-	2,092
Uncollectible amounts written off	(2,863)	-	(622)	(3,485)
Translation differences	(15)	-	-	(15)
As at 31 December 2013	**3,305**	**5,895**	**13**	**9,213**
Charges	617	646	41	1,304
Uncollectible amounts written off	(1)	-	-	(1)
Translation differences	-	486	-	486
As at 31 December 2014	**3,921**	**7,027**	**54**	**11,002**

Allowances for impairment of other assets are deducted from the carrying amounts of the related assets. Provisions for liabilities are included in other liabilities.

19. Due to banks and loans from the National Bank of Ukraine

Due to banks and loans from the National Bank of Ukraine comprised:

	2014	*2013*
Loans from the National Bank of Ukraine	271,167	-
Loans from other banks	223,679	423,496
Deposits from other banks	-	1,480,863
Correspondent accounts	-	42
Total due to banks and loans from the National Bank of Ukraine	**494,846**	**1,904,401**

As at 31 December 2014, loans from other banks included UAH 223,679 thousand (2013: UAH 209,953 thousand) received from JSC "BTA Bank" (Kazakhstan). This amount consists of payables for two repossessed buildings. Payables on the difference between the fair value of above property and the outstanding amount are to be paid to JSC "BTA Bank" (Kazakhstan) as JSC "BTA Bank" (Kazakhstan) also granted loans to the same customers and was in the second order in claims for this collateral.

As at 31 December 2014, loans from the National Bank of Ukraine in the amount of UAH 271,167 thousand and amounts due to JSC "BTA Bank" (Kazakhstan) in the amount of UAH 223,679 thousand were secured by the investment property carried on the Bank's balance in the amount of UAH 697,756 thousand and UAH 251,701 thousand, respectively (2013: UAH 251,701 thousand and UAH null thousand, respectively) (Note 13).

Within the framework of the loan agreement with the National Bank of Ukraine, the Bank is imposed with certain restrictions on its operations (that do not affect the Bank's operations with customers) and, as at 31 December 2014, the Bank complied with them.

20. Customer accounts

Customer accounts comprised:

	2014	*2013*
Current accounts		
- Individuals	72,174	66,908
- Legal entities	64,069	80,241
- Due to funds under the Bank's management	30	47
Term deposits		
- Individuals	504,284	1,170,063
- Legal entities	43,476	39,775
Total customer accounts	**684,033**	**1,357,034**

As at 31 December 2014, customer accounts in the amount of UAH 171,996 thousand (25%) were due to ten largest customers (2013: UAH 237,716 thousand, or 18%).

In accordance with the Ukrainian legislation, the Bank is obliged to repay term deposits of individuals upon demand.

Analysis of customer accounts by economic sector was as follows:

	2014	*2013*
Individuals	576,458	1,236,971
Legal activities	38,235	10,697
Trade	17,796	22,615
Manufacturing	10,755	14,493
Construction	7,874	4,323
Agriculture	3,553	3,253
Insurance	2,608	4,371
Transport and communications	2,541	2,007
Engineering	2,196	8,339
Other	22,017	49,965
Total customer accounts	**684,033**	**1,357,034**

Funds under the Bank's management

The Bank acts as a fund manager for construction-financing funds. Movements in amounts on the funds' accounts were as follows:

	Funds under the Bank's management
As at 31 December 2012	**77**
Funds attracted from individuals	2,451
Invested funds	(2,481)
As at 31 December 2013	**47**
Funds attracted from individuals	796
Invested funds	(813)
As at 31 December 2014	**30**

21. Equity

In 2014 and 2013, there were no movements in the Bank's outstanding, issued, and fully paid shares.

As at 31 December 2014, total number of authorized ordinary shares was 20,000,000 shares (2013: 20,000,000 shares) with the nominal value of UAH 75 per share. All authorized shares were issued and fully paid. All ordinary shares have equal voting, dividend, or capital repayment rights.

The Bank's share capital was contributed by the shareholders in UAH and the shareholders are entitled to dividends and any capital distributions in UAH. There were no dividends or other capital distributions declared in 2014 and 2013.

Share capital was restated in prior periods to reflect the effect of hyperinflation, which was made in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies".

Additional paid-in capital also comprises gain on initial recognition of subordinated debt from the shareholders (presented as the excess of the fair value of the funds received over their nominal value).

Movements in other reserves

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment	*Fair value reserve for financial assets available for sale*	*Total revaluation reserves*
As at 31 December 2012	**4,792**	**289**	**5,081**
Depreciation of revaluation reserve, net of tax	(131)	-	(131)
Revaluation of property and equipment	18,415	-	18,415
Impairment of financial assets available for sale reclassified to the statement of profit or loss	-	425	425
Realized losses on financial assets available for sale reclassified to the statement of profit or loss	-	(21)	(21)
Income taxes attributable to components of other comprehensive income	(3,049)	(8)	(3,057)
As at 31 December 2013	**20,027**	**685**	**20,712**
Depreciation of revaluation reserve, net of tax	(122)	-	(122)
Revaluation of property and equipment	-	-	-
Gains less losses on revaluation of financial assets available for sale	-	-	-
Net unrealized gains/(losses) on financial assets available for sale reclassified to the statement of profit or loss	-	(7,833)	(7,833)
Realized gains on financial assets available for sale reclassified to the statement of profit or loss	-	7,074	7,074
Income taxes attributable to components of other comprehensive income	-	74	74
As at 31 December 2014	**19,905**	**-**	**19,905**

Nature and purpose of other reserves

Revaluation reserve for property and equipment

Revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

Fair value reserve for financial assets available for sale

This reserve reflects fair value changes on financial assets available for sale in the Bank's portfolio.

Reserve and other funds

Reserve and other funds are created in accordance with the Ukrainian legislation to cover unforeseeable losses and other expenses of the Bank. Reserve and other funds are created by distributing the Bank's net profit for the year (at least 5%) until the reserve and other funds equal 25% of the Bank's regulatory capital.

In 2014, pursuant to the decision of the General Shareholders' Meeting dated 14 April 2014, the Bank's reserve capital was contributed by the profits of the current year of 2014 and profits of prior years in the total amount of UAH 27,647 thousand. In 2013, pursuant to the decision of the General Shareholders' Meeting dated 10 April 2013, the Bank's losses of the previous year were covered at the cost of the Bank's reserve capital in the total amount of UAH 33,093 thousand.

22. Commitments and contingencies

Legal issues

In the course of business, in order to protect its interests (both property and non-property) legal actions and complaints occur, where the Bank acts as a plaintiff and defendant.

In order to protect its rights and interests and exclude contingent liabilities during consideration of legal cases, the Bank takes all measures provided by law aimed at the course of legal proceedings, which does not affect the deterioration of the Bank's financial results.

In the ordinary course of business, the Bank is subject to legal actions and complaints. Thus, during 2014, the Bank filed a claim to the Babuskinskyi District Court in Dnipropetrovsk with the demand to remove arrest from its investment property located at the address: 63 Komsomolska Str, city of Dnipropetrovsk (Note 13). Title of the Bank's ownership to this item was recognized by court's ruling that came into effect, but, as at 31 December 2014, the Bank's title of ownership was not registered with the State Register Property Rights to Tangible Assets due to the existing arrest to the item in question. On 14 July 2014, the proceedings on the case were opened and, on 5 September 2014, the Bank's request was satisfied regarding discovery of data on the arrest from the Register Service. As at 31 December 2014, the hearings were transferred to January 2015. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of the Bank's future operations.

Taxation

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

At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

As at 31 December 2014 and 2013, the Bank had a significant VAT asset that arose from repossessed property in the prior period (Note 17). There are no direct restrictions as to the carry forward of this VAT asset and its realization through the reduction of tax liabilities by the amount of this VAT asset in the event the pledged properties are sold. However, this does not preclude from certain technical difficulties for the sale by the Bank of this VAT asset due to the introduction of a new system for VAT administering and inconsistent treatment of new provisions of the Tax Code of Ukraine.

As at 31 December 2014 and 2013, the Bank's management believes that its interpretation of the relevant legislation was appropriate and that the Bank's tax and currency positions will be sustained.

Financial commitments and contingencies

As at 31 December 2014 and 2013, the Bank's financial commitments and contingencies comprised the following:

	2014	*2013*
Irrevocable undrawn loan commitments	2,067	1,697
Provision for other financial liabilities (Note 18)	(54)	(13)
Financial commitments and contingencies	**2,013**	**1,684**

Future minimal lease payments

As at 31 December 2014 and 2013, future minimal lease payments under non-cancellable leases commitments were as follows:

	2014	*2013*
Within 1 year	657	2,262
From 1 to 5 years	-	492
Total	**657**	**2,754**

23. Interest income

Interest income comprised the following:

	2014	*2013*
Interest income on financial assets at amortized cost:		
Interest income of unimpaired financial assets	39,765	81,390
Interest income of impaired financial assets	73,297	130,341
Interest income on financial assets at fair value:		
Interest income of unimpaired financial assets	22,741	17,131
Total interest income	**135,803**	**228,862**

24. Net fee and commission income

Net fee and commission income comprised the following:

	2014	*2013*
Cash and settlements operations	18,722	14,565
Loan servicing	364	609
Securities operations	131	125
Guarantees and letters of credit	2	9
Other	89	99
Total fee and commission income	**19,308**	**15,407**
Cash and settlements operations	(5,167)	(4,280)
Total fee and commission expense	**(5,167)**	**(4,280)**
Net fee and commission income	**14,141**	**11,127**

25. Net gain on transactions with financial assets and liabilities at fair value through profit or loss

Net gain on transactions with financial assets and liabilities at fair value through profit or loss comprised:

	2014	*2013*
Embedded derivatives on foreign currency denominated loans to customers	172,132	7,222
Swaps	14,817	478
Total net gain on transactions with financial assets and liabilities at fair value through profit or loss	**186,949**	**7,700**

26. Staff costs and other operating expenses

Staff costs and other operating expenses comprised the following:

	2014	*2013*
Staff costs	58,124	49,084
Social security contributions	11,707	13,991
Total staff costs	**69,831**	**63,075**
Loan insurance	20,221	-
Legal and consultancy	18,720	56,317
Repair and maintenance of property and equipment	18,488	7,708
Utilities for own property	14,606	13,064
Charges to Individual Deposit Guarantee Fund	8,198	11,467
Operating taxes	5,008	2,991
Security	4,258	5,131
Operating leases	4,206	8,637
Telecommunications	3,561	3,530
Loss on disposal of investment property	3,380	223
Loss on disposal of property and equipment	3,168	676
Office supplies	2,370	3,011
Communications	891	1,055
Loss on disposal of non-current assets held for sale	764	1,219
Marketing and advertising	640	1,681
Business travel and related expenses	246	540
Representation expenses	206	203
Cash collection expenses	63	111
Other	4,050	4,594
Total other operating expenses	**113,044**	**122,158**

27. Financial risk management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement, and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, and market risk (market risk is subdivided into interest rate risk, currency risk, and early repayment risk). The Bank is also subject to operating risks.

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

Risk management structure

Supervisory Board

The Supervisory Board of the Bank determines and consolidates the Bank's risk management strategy.

Management Board

The Management Board of the Bank is responsible for the implementation of risk management strategies. The Board develops internal regulations that deal with risk management policies, the methods and procedures by which risk is evaluated, and the process by which risk management is monitored. The Board reports to the Supervisory Board regarding the realization of the Bank's strategy and the management of considerable risks.

Credit Committee

The Credit Committee meets on a daily basis and is responsible for implementation of the internal regulations set by the Board, including setting credit policy in line with those regulations, approving credit limits, including limits for financial counterparties, monitoring of the credit performance and the quality of the Bank's loan portfolio, and reviewing large projects and the credit policies of regional branches of the Bank.

Asset and Liability Management Committee ("ALMC")

The ALMC is responsible for overseeing the Bank's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Board, and matches assets and liabilities with different maturities, develops various scenarios of the Bank's statement of financial position structure based on the different levels of liquidity and interest rate risks. It also periodically reviews the Bank's asset and liability position and determines the strategy of the Bank's asset and liability management. The ALMC also monitors and reviews interest rates in respect of the assets and liabilities of the Bank.

Risk Management Department

The Risk Management Department is responsible for implementing and executing risk management procedures to ensure an independent control process.

Treasury

The Bank's Treasury department is responsible for managing the Bank's assets and liabilities and ensuring the Bank's current liquidity.

Internal Audit Function

The Internal Audit Function is responsible for determining, reviewing, and improving the Bank's system of internal controls. The Internal Audit Function monitors the conformity of the Bank's policies with the current legislation and regulations, professional norms and ethics. It also ensures the conformity of the Bank's accounting practices to Ukrainian accounting rules, and confirms the conformity of aggregate accounting statistics with primary document data.

Risk measurement and reporting systems

During the risk management process, the Bank determines three categories of losses: expected losses, unexpected losses, and extraordinary losses. Expected losses are measured as an average amount of losses on active transactions. Unexpected losses are possible adverse deviations of the amount of expected losses due to unexpected but possible events (are usually calculated based on mathematical models). Extraordinary losses are related to the crises events (both at the level of the Bank and at the macroeconomic level).

During the risk analysis process, the Bank considers the exposure of extreme circumstances (stress scenarios) on the basis of which the extraordinary emergency measures are determined in the form of a contingency plan.

The risk control process comprises risk planning and setting of limits. The Bank determines the level of risk which it is willing to accept for achieving its business objective and performing strategic tasks.

To control the current level of liquidity risk, the Bank uses external and internal limits which are communicated to other Bank's units in the form of ALMC's decisions.

Limits set by the Bank for lending are approved by the Credit Committee and subdivided into individual credit risk limits, portfolio and specific transactions credit risk limits, limits of authorities in respect of taking credit decisions.

The Bank monitors risks, examines the trends, and analyzes reasons for changes in the risk level. It regularly compares the projected and actual risk indicators, as well as determines correlation of different types of risks in order to develop and undertake appropriate measures.

Information received from the result of the analysis is regularly presented in the form of reports for examination by the Management Board, the ALMC, and the Credit Committee.

The Bank's Supervisory Board is informed about risk levels on a quarterly basis.

Risk mitigation

As part of its overall risk management, the Bank uses different instruments to manage exposures resulting from changes in interest rates, foreign currencies, capital adequacy risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

The Bank executes a credit risk management function during the process of selecting potential borrowers taking into account concentration risk of related parties, industries, maturity, currency, and other parameters defined by internal regulations.

To maintain a reasonable level of concentration, the Bank sets structural limits which are within prudential requirements.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients, or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty with a risk rating. Risk ratings are subject to regular revisions. The credit quality review process allows the Bank assessing the potential loss as a result of risks to which it is exposed and take corrective actions.

Credit related commitment risks

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

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, is best represented by their carrying amounts before the effect of mitigation through the use of offsetting and collateral agreements and after deducting any allowance for impairment.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(in Ukrainian Hryvnias and in thousands, unless otherwise indicated)

Credit quality by financial asset categories

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by categories of assets for loan-related statement of financial position lines, based on the Bank's credit rating system.

		Neither past due nor individually impaired			*Past due or individually impaired*	*Total*
	Notes	*High grade*	*Standard grade*	*Sub-standard grade*		
31 December 2014						
Current accounts with the NBU (other than obligatory reserve)	8	15,998	-	-	-	15,998
Correspondent accounts with banks	8	146,184	-	232	-	146,416
Due from banks	9	7,179	-	-	-	7,179
Financial assets at fair value through profit or loss	10	8,787	-	-	154,201	162,988
Loans to legal entities before provisions	11	26,143	75,221	4,189	920,097	1,025,650
Loans to individuals before provisions	11	1,043	2,589	-	52,325	55,957
Financial assets available for sale	12	21,009	-	-	4,554	25,563
Total		**226,343**	**77,810**	**4,421**	**1,131,177**	**1,439,751**

		Neither past due nor individually impaired			*Past due or individually impaired*	*Total*
	Notes	*High grade*	*Standard grade*	*Sub-standard grade*		
31 December 2013						
Current accounts with the NBU (other than obligatory reserve)	8	36,015	-	-	-	36,015
Correspondent accounts with banks	8	79,500	-	-	-	79,500
Term deposits with banks	8	191,963	-	-	-	191,963
Due from banks	9	1,703,454	-	-	-	1,703,454
Obligatory reserve deposit with the NBU	9	32,405	-	-	-	32,405
Financial assets at fair value through profit or loss	10	3	-	-	9,459	9,462
Loans to legal entities before provisions	11	56,118	18,102	-	893,409	967,629
Loans to individuals before provisions	11	1,952	6,959	-	39,577	48,488
Financial assets available for sale	12	301,439	-	-	4,554	305,993
Total		**2,402,849**	**25,061**	**-**	**946,999**	**3,374,909**

It is the Bank's credit risk management policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographical regions, and products. The rating system is supported by a variety of financial analytics, combined with processed market information.

Neither past due nor impaired loans are split by the Bank into the following credit risk categories:

- *High grade.* This category includes exposures with insignificant credit risk which is characterized by strong financial position of the borrower and good loan servicing;
- *Standard grade.* This category includes exposures with insignificant credit risk which however may increase as a result of unfavorable conditions; there are exposures to borrowers with good financial standing and good payment history or borrowers with strong financial position and payment history with delays not exceeding 90 days;
- *Sub-standard grade.* This category includes exposures with significant credit risk which is characterized by weak/poor financial position of the borrower and good/poor loan servicing.

The following table shows the principle according to which the credit quality grades were assigned to financial assets in the table above:

		Rating values		
	Rating system	*High grade*	*Standard grade*	*Sub-standard grade*
Loans to legal entities	The NBU's classification system for legal entities	1	2	3, 4, 5
Loans to individuals	The NBU's classification system for individuals	1	2	3, 4, 5

Ageing analysis of past due but not impaired loans per categories of financial assets

31 December 2014	*Less than 30 days*	*From 31 to 60 days*	*From 61 to 90 days*	*More than 90 days*	*Total*
Loans to customers					
Loans to legal entities	-	-	-	24	24
Loans to individuals	-	213	-	5,865	6,078
Total	**-**	**213**	**-**	**5,889**	**6,102**

31 December 2013	*Less than 30 days*	*From 31 to 60 days*	*From 61 to 90 days*	*More than 90 days*	*Total*
Loans to customers					
Loans to individuals	647	-	289	9,062	9,998
Total	**647**	**-**	**289**	**9,062**	**9,998**

(in Ukrainian Hryvnias and in thousands, unless otherwise indicated)

Geographical concentration

Geographical concentration of the Bank's monetary assets and liabilities is set out below:

	2014			
	Ukraine	*OECD countries*	*CIS and other countries*	*Total*
Assets:				
Cash and cash equivalents	95,380	143,550	232	239,162
Due from banks	7,179	-	-	7,179
Loans to customers	728,004	-	-	728,004
Financial assets available for sale	25,563	-	-	25,563
Financial assets at fair value through profit or loss	162,988	-	-	162,988
Other financial assets	559	-	-	559
	1,019,673	**143,550**	**232**	**1,163,455**
Liabilities:				
Loans from the National Bank of Ukraine	271,167	-	-	271,167
Due to banks	-	-	223,679	223,679
Customer accounts	666,271	9,066	8,696	684,033
Other financial liabilities	2,362	3	16	2,381
	939,800	**9,069**	**232,391**	**1,181,260**
Net position	**79,873**	**134,481**	**(232,159)**	**(17,805)**
Net commitments and contingencies	2,013	-	-	2,013

	2013			
	Ukraine	*OECD countries*	*CIS and other countries*	*Total*
Assets:				
Cash and cash equivalents	305,220	74,940	490	380,650
Obligatory reserve deposit with the NBU	32,405	-	-	32,405
Due from banks	1,703,454	-	-	1,703,454
Loans to customers	756,390	-	-	756,390
Financial assets available for sale	305,993	-	-	305,993
Financial assets at fair value through profit or loss	9,462	-	-	9,462
Other financial assets	1,323	-	-	1,323
	3,114,247	**74,940**	**490**	**3,189,677**
Liabilities:				
Due to banks	1,694,448	-	209,953	1,904,401
Financial liabilities at fair value through profit or loss	65	-	-	65
Customer accounts	1,300,504	9,092	47,438	1,357,034
Other financial liabilities	506	-	-	506
	2,995,523	**9,092**	**257,391**	**3,262,006**
Net position	**118,724**	**65,848**	**(256,901)**	**(72,329)**
Net commitments and contingencies	1,684	-	-	1,684

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

The main liquidity risk factor is represented by the maturity gap in the assets and liabilities of the Bank.

Main principles of liquidity risk management are as follows:

- Centralization of liquidity risk management at the Head Office level;
- Separate management of short-term and structural liquidity;
- Diversification of funding sources;
- Limitation of liquidity risk through establishment of limits;
- Matching assets and liabilities in terms of maturity;
- Maintenance of an adequate liquidity buffer in the event of a liquidity deficit;
- Adequate monitoring and control system.

In order to assess its liquidity risk, the Bank uses gap analysis, ratio analysis, scenario analysis (including stress testing), and borrowed funds structure analysis. Liquidity risk is evaluated with respect to each currency. Ageing analysis of the bank's assets and liabilities is presented in Note 29.

The Assets and Liabilities Management Committee is generally responsible for development of the liquidity risk management strategy. Operational short-term liquidity (up to 90 days) risk management is exercised by the Treasury Department and the Securities Department, ensuring compliance with short-term liquidity risk limits. The structural liquidity management decisions are taken by the ALMC on the basis of the information prepared by the Risk Management Department.

Short-term liquidity risk management

To assess short-term liquidity risk, a gap analysis is prepared on a daily basis with respect to contractual maturity and currency. For maturities up to 14 days – a detailed daily payment schedule is used to determine a daily demand for additional financing; maturities greater than 14 days and up to 90 days are grouped into several time categories (time buckets) for liquidity management purposes.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily sold in the event of an unforeseen interruption of cash flows. The Bank considers the following assets to be liquid: cash on hand, correspondent accounts with the NBU and other banks, and securities refinanced by the NBU. An adequate volume of liquid assets is determined based on stress testing. Furthermore, the Bank has entered into facility agreements with several banks, which it may use in order to satisfy an unexpected demand for funds.

To restrict short-term liquidity risk, the following ratios have been established for the Bank on a stand-alone basis:

- Immediate liquidity ratio which is computed under the algorithm established by the NBU for H4 ratio (cash on hand and balances on nostro accounts with banks/balances on customers' current accounts);
- Current liquidity ratio which is computed under the algorithm established by the NBU for H5 ratio (cash on hand, balances on nostro accounts with banks, precious metals, claims on banks with the residual maturity of up to 31 days, bills and government bonds with the residual maturity of up to 31 days/balances on customers' current accounts, term deposits, debt obligations and commitments with the residual maturity of up to 31 days;
- Short-term liquidity ratio limit which is computed under the algorithm established by the NBU for H6 ratio (cash on hand, balances on nostro accounts with banks, precious metals, claims on banks with the residual maturity of up to 1 year, bills and government bonds with the residual maturity of up to 1 year/balances on customers' current accounts, term deposits, debt obligations and commitments with the residual maturity of up to 1 year.

Structural liquidity risk management

To assess structural liquidity risk, a gap analysis of assets and liabilities is prepared on a daily basis with respect to contractual maturity (greater than 91 days) and currency.

The Bank has set the following ratios in order to measure and limit its structural liquidity risk:

- Ratio of term liabilities to total liabilities;
- Ratio of due to banks to total liabilities;
- Ratio of the cumulative gap between monetary assets and liabilities to monetary assets.

Scenario analysis in liquidity risk management

The Bank regularly monitors the liquidity of the money market. 3 scenarios are analyzed: usual market conditions; liquidity crisis of the Bank; liquidity crisis in the market. In the latter case, the Bank implements a preliminary developed action plan for maintaining liquidity under crisis conditions.

Additionally, the Bank develops stress-testing scenarios, which reflect unlikely but material adverse changes of factors affecting the business of the Bank.

The diversified structure of the Bank's obligations is achieved through consistent monitoring of the liabilities portfolio concentration by categories of customers with the largest amounts of funds with the Bank (the total amount of funds due to 5, 10, and 20 largest customers).

The Bank manages outflows of liquidity through building awareness among depositors so that retain its deposit portfolio, hold balances on current accounts, hold back funds under non-performing borrowers, and sell the Bank's properties.

Assessment of liquidity position

Adherence to internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBU as described in the short-term liquidity risk management section above.

As at 31 December 2014, the liquidity position assessed by certain liquidity ratios established by the NBU was as follows:

	Required level	*2014, %*	*2013, %*
H4 "Immediate Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand)	Not less than 20%	155%	130%
H5 "Current Liquidity Ratio" (assets receivable or realizable within 30 days/liabilities repayable within 30 days)	Not less than 40%	130%	288%
H6 "Short-Term Liquidity Ratio" (cash on hand, balances on nostro accounts with banks, precious metals, claims to banks with the residual maturity of up to 1 year, bills and bonds with the residual maturity of up to 1 year/balances on customers' current accounts, term deposits, debt obligations and commitments with the residual maturity of up to 1 year)	Not less than 60%	69%	71%

(in Ukrainian Hryvnias and in thousands, unless otherwise indicated)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Less than 3 months liabilities are those that due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment, and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

31 December 2014	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Due to banks	-	-	160,870	262,216	423,086
Loans from the National Bank of Ukraine	10,084	30,813	303,659	-	344,556
Customer accounts	333,075	341,988	43,074	12,806	730,943
Other financial liabilities	2,381	-	-	-	2,381
Swaps	47,316	-	-	-	47,316
Total	**392,856**	**372,801**	**507,603**	**275,022**	**1,548,282**

31 December 2013	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Due to banks	1,694,448	-	161,279	262,216	2,117,943
Customer accounts	499,222	802,612	43,535	14,247	1,359,616
Other financial liabilities	506	-	-	-	506
Swaps	98,468	-	-	-	98,468
Total	**2,292,644**	**802,612**	**204,814**	**276,463**	**3,576,533**

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

	Up to 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
31 December 2014	1,989	14	10	-	**2,013**
31 December 2013	1,591	66	27	-	**1,684**

The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. Market risk positions are managed and monitored using sensitivity analysis.

Market risk – non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate for non-trading financial assets and financial liabilities held at 31 December 2014 and 2013. The effect on equity does not differ from the effect on the statement of profit or loss.

	As at 31 December 2014		*As at 31 December 2013*	
	Interest rate +30%	**Interest rate -30%**	**Interest rate +30%**	**Interest rate -30%**
Net impact on profit	87,907	(87,907)	(103,649)	103,649

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBU regulations. Positions are monitored on a daily basis.

The Bank has established the following limits to minimize its exposure to foreign currency risk:

- Total open currency position;
- Total long open currency position;
- Total short open currency position.

Compliance with the internal limits of the Bank is in line with the currency risk management requirements established by the NBU.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2014 and 2013 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against UAH, with all other variables held constant in the statement of profit or loss. The effect on equity does not differ from the effect on the statement profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate, % 2014*	*Effect on profit 2014*	*Increase in currency rate, % 2013*	*Effect on profit 2013*
USD	+40%	11,988	+30%	(2,112)
EUR	+40%	757	+30%	(1,899)

Currency	*Decrease in currency rate, % 2014*	*Effect on profit 2014*	*Decrease in currency rate, % 2013*	*Effect on profit 2013*
USD	-40%	(11,988)	-30%	2,112
EUR	-40%	(757)	-30%	1,899

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education, and assessment processes, including the use of internal audit.

28. Fair value measurement

Fair value measurement procedures

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Bank's Investment Property and Securities Departments and Treasury determine the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

External appraisers are involved for valuation of significant assets, such as real property. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained. The Bank decides, after discussions with its external appraiser, which valuation techniques and inputs to use in each case.

At each reporting date, the Bank analyzes movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank, in conjunction with the Bank's external appraisers, also compares every change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. Periodically, the Bank and external appraisers present the valuation results to the Audit Committee and the Bank's independent auditors. This includes a discussion of major assumptions used in the valuations.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Quoted prices in active market are the most reliable evidences of the fair value and, if available, may be used to adjust the fair value measurements;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3 inputs are unobservable inputs for the asset or liability.

Fair value hierarchy

Certain financial assets and financial liabilities, including the Bank's buildings, are measured at fair values as at the end of the reporting period. The following methods are applied to measure the fair values of those assets and liabilities:

The fair values of currency forwards, spots, currency security forwards, and currency-interest swaps are measured at Level 2 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on forward exchange rates and discounted using the inter-bank exchange rate.

Investments available for sale and embedded derivatives are measured at Level 3 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the observable market data, as well as unobservable data. Unobservable data include assumptions regarding future financial performance of an issuer and its risk profile.

Construction in progress is measured at Level 3 of the fair value hierarchy. The Bank engages independent appraisers to arrive at the fair value of buildings and office premises, with the comparison sales method applied, whereas for items that have no market analogs, income capitalization method is applied. In applying the comparison sales method, prices for market sales of comparable property items located in the nearest vicinity are adjusted with reference to differences in key parameters (such as space of the property). Key parameter used in this valuation method is the price of one square meter of the property item.

Buildings and office premises are measured at Level 3 of the fair value hierarchy. The Bank engages independent appraisers to arrive at the fair value of buildings and office premises, with the comparison sales method applied, whereas for items that have no market analogs, income capitalization method is applied. In applying the comparison sales method, prices for market sales of comparable property items located in the nearest vicinity are adjusted with reference to differences in key parameters (such as space of the property). Key parameter used in this valuation method is the price of one square meter of the property item.

Other financial instruments

Due to absence of secondary market for due from banks, loans from the National Bank of Ukraine, due to banks, loans to customers, accounts receivable and payable in Ukraine, it is impracticable to obtain a reliable fair value measurement of those instruments.

The carrying amounts of financial assets and liabilities with short maturities are assumed to be approximate their fair values. This assumption is applied to demand deposits and current accounts with unspecified maturities.

Loans to customers are measured at Level 3 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the observable market data, as well as unobservable data. Unobservable data include assumptions regarding future financial performance of a counterparty and its risk profile.

Due to banks is measured at Level 2 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the information for which all significant data may be, directly or indirectly, obtained through observation, and the estimates use one or several observable determined prices for regular transactions in the markets that are considered to be active.

Customer accounts are measured at Level 3 of the fair value hierarchy using the discounted cash flows. Future cash flows are estimated based on the observable market data, as well as unobservable data. Unobservable data include assumptions regarding future financial performance of a counterparty and its risk profile.

To disclose fair values, the Bank determined categories of its assets and liabilities based on their nature, characteristics, and risks of assets and liabilities, as well as level of the fair value hierarchy.

The following table summarizes financial instruments measured at fair value by levels of the fair value hierarchy as at 31 December 2014:

		Fair value measurement using:			
	Valuation date	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobser-vable inputs (Level 3)*	*Total*
Assets measured at fair value					
Financial assets at fair value through profit or loss	31 December 2014	-	8,787	154,201	162,988
Financial assets available for sale	31 December 2014	-	21,009	4,554	25,563
Investment property	31 December 2014	-	-	1,324,948	1,324,948
Property and equipment		-	-	15,952	15,952
Assets for which fair values are disclosed					
Cash and cash equivalents		239,162	-	-	239,162
Due from banks		-	7,179	-	7,179
Loans to customers		-	-	529,007	529,007
Liabilities for which fair values are disclosed					
Loans from the National Bank of Ukraine		-	267,197	-	267,197
Due to banks		-	202,022	-	202,022
Customer accounts		-	-	515,781	515,781

The following table summarizes financial instruments measured at fair value by levels of the fair value hierarchy as at 31 December 2013:

		Fair value measurement using:			
	Valuation date	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobser-vable inputs (Level 3)*	*Total*
Assets measured at fair value					
Financial assets at fair value through profit or loss	31 December 2013	-	3	9,459	9,462
Financial assets available for sale	31 December 2013	-	301,439	4,554	305,993
Investment property	31 December 2013	-	-	1,358,330	1,358,330
Property and equipment		-	-	21,489	21,489
Assets for which fair values are disclosed					
Cash and cash equivalents		380,650	-	-	380,650
Obligatory reserve deposit with the NBU		32,405	-	-	32,405
Due from banks		-	1,703,454	-	1,703,454
Loans to customers		-	-	896,766	896,766
Liabilities measured at fair value					
Financial liabilities at fair value through profit or loss	31 December 2013	-	65	-	65

		Fair value measurement using:			
	Valuation date	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobser-vable inputs (Level 3)*	*Total*
Liabilities for which fair values are disclosed					
Due to banks		-	1,811,689	-	1,811,689
Customer accounts		-	-	1,303,184	1,303,184

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

	2014			*2013*		
	Carrying amounts	*Fair value*	*Unrecog-nized profit/ (loss)*	*Carrying amounts*	*Fair value*	*Unrecog-nized profit/ (loss)*
Financial assets						
Cash and cash equivalents	239,162	239,162	-	380,650	380,650	-
Obligatory reserve deposit with the NBU	-	-	-	32,405	32,405	-
Due from banks	7,179	7,179	-	1,703,454	1,703,454	-
Loans to customers	728,004	529,007	(198,997)	756,390	896,766	140,376
Financial liabilities						
Loans from the National Bank of Ukraine	(271,167)	(267,197)	3,970	-	-	-
Due to banks	(223,769)	(202,022)	21,747	(1,904,401)	(1,811,689)	92,712
Customer accounts	(684,033)	(515,781)	168,252	(1,357,034)	(1,303,184)	53,850
Total unrecognized changes in fair value			**(5,028)**			**286,938**

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

Assets the fair value of which approximates their carrying amounts

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

Financial instruments with fixed and variable interest rates

The fair values of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits and loans is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Derivative financial instruments

Derivatives assessed using a valuation technique with market observable inputs are presented by currency swaps. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot, and forward rates.

Financial assets available for sale

Financial assets available for sale assessed using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are assessed using models which sometimes only incorporate data observable in the market and, at other times, use both observable and unobservable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair values:

	1 January 2014	*31 December 2014*
Financial assets available for sale	4,554	4,554

	1 January 2013	*31 December 2013*
Financial assets available for sale	4,554	4,554

29. Maturity analysis for financial assets and financial liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Financial Risk Management" for the Bank's contractual undiscounted repayment obligations.

	2014			*2013*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	239,162	-	239,162	380,650	-	380,650
Obligatory reserve deposit with the NBU	-	-	-	32,405	-	32,405
Financial assets at fair value through profit or loss	31,649	131,339	162,988	122	9,340	9,462
Due from banks	7,179	-	7,179	1,703,454	-	1,703,454
Loans to customers	130,108	597,896	728,004	244,006	512,384	756,390
Financial assets available for sale	21,009	4,554	25,563	165,789	140,204	305,993
Other financial assets	559	-	559	1,323	-	1,323
Total	**429,666**	**733,789**	**1,163,455**	**2,527,749**	**661,928**	**3,189,677**

	2014			*2013*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Liabilities						
Loans from the National Bank of Ukraine	-	271,167	271,167	-	-	-
Due to banks	-	223,679	223,679	1,694,448	209,953	1,904,401
Derivative financial liabilities	-	-	-	65	-	65
Customer accounts	647,472	36,561	684,033	1,299,798	57,236	1,357,034
Other financial liabilities	2,381		2,381	506	-	506
Total	**649,853**	**531,407**	**1,181,260**	**2,994,817**	**267,189**	**3,262,006**
Net	**(220,187)**	**202,382**	**(17,805)**	**(467,068)**	**394,739**	**(72,329)**

The tables above do not reflect the expected cash flows estimated by the Bank based on information relating to deposit repayment history in previous periods. The table shows repayments based on contractual settlement dates. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment.

Management of the Bank's liquidity includes estimation of basic current accounts, i.e. stable customer account balances, determined by using statistical methods in respect of the historical information about fluctuations in the balances of current customer accounts. As at 31 December 2014, minimum balances on current accounts were estimated in the amount of UAH 131,516 thousand. Based on the going concern assumption, the actual maturities of minimum balances are indefinite. Summary of the estimated maturities of current customer accounts and actual liquidity gaps as at 31 December 2014 is presented as follows:

	Within one year
Cumulative gap	(220,187)
Current customer accounts based on estimated maturities	131,516
Cumulative liquidity gap based on estimated maturities of current customer accounts	**(88,671)**

30. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year-end, and related expense and income for the year were as follows:

	2014			*2013*		
	Shareholders and entities with significant influence	*Entities under common control*	*Key manage-ment personnel*	*Shareholders and entities with significant influence*	*Entities under common control*	*Key manage-ment personnel*
Loans outstanding as at 1 January	-	-	3	-	-	42
Net decrease in loans during the year	-	-	(3)	-	-	(39)
Loans outstanding as at 31 December	**-**	**-**	**-**	**-**	**-**	**3**
Interest income on loans	-	-	1	-	-	12
Due to banks as at 1 January	209,953	42	-	363,731	34	-
Net increase/ (decrease) in due to banks during the year	13,726	(42)	-	(153,778)	8	-
Due to banks as at 31 December	**223,679**	**-**	**-**	**209,953**	**42**	**-**
Customer account as at 1 January	-	1,419	24,185	-	1,440	22,087
Net (decrease)/ increase in customer accounts during the year	-	(31)	(23,087)	-	(21)	2,098
Customer accounts as at 31 December	**-**	**1,388**	**1,098**	**-**	**1,419**	**24,185**
Interest expense	14,100	-	520	23,894	-	2,098
Fee and commission income	-	4	23	-	37	2

Remuneration to key management personnel comprised the following:

	2014	*2013*
Salaries and other short-term benefits	33,143	8,873
Social security charges	2,497	1,683
Total remuneration to key management personnel	**35,640**	**10,556**

In 2014, in addition to basic and additional salaries, termination benefits were paid to the Bank's employees in the amount of UAH 16,991 thousand due to their dismissal, including because of downsizing when operational outlets were closed (2013: UAH 104 thousand).

31. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank.

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

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

Capital adequacy ratio under the NBU requirements

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on the NBU's requirements. As at 31 December 2014 and 2013, the Bank's capital adequacy ratio on this basis was as follows:

	2014	*2013*
Main capital	1,474,724	1,478,123
Additional capital	9,286	27,663
Total capital	**1,484,010**	**1,505,786**
Risk weighted assets	**2,563,094**	**3,891,988**
Regulatory capital adequacy ratio	57.90%	38.69%

Capital adequacy ratio the 1988 Basel Capital Accord

As at 31 December 2014 and 2013, the Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks comprised:

	2014	*2013*
Tier 1 capital	1,482,135	1,442,736
Tier 2 capital	19,905	20,712
Total capital	**1,502,040**	**1,463,448**
Risk weighted assets	**2,581,225**	**2,743,311**
Tier 1 capital adequacy ratio	57.42%	52.59%
Total capital adequacy ratio	58.19%	53.35%

32. Subsequent events

Subsequent to 31 December 2014, the official exchange rate of UAH against USD and EUR decreased sharply. As at the date these financial statements were signed for issue, USD 1 amounted to UAH 23.443, and EUR 1 amounted to UAH 25.449.

Effective from 6 February 2015, the National Bank of Ukraine established its discount rate at the level of 19.5% p.a. and, effective from 4 March 2015, at the level of 30% p.a.

Signed and authorized for issue on behalf of the Bank's Management Board:

Sierogin K. V. Chairperson of the Management Board

Latun O. V. Chief Accountant

31 March 2015