

**Public Joint Stock Company
“ING Bank Ukraine”**

IFRS Financial statements

*Year ended 31 December 2015
together with independent auditors' report*

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Independent Auditors' Report

To the Management Board of Public Joint Stock Company "ING Bank Ukraine"

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

Management's Responsibility for the 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.

Auditors' 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 adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No. 320/1 dated 29 December 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2014 were audited by other auditors whose report dated 23 April 2015 expressed an unmodified opinion on those statements.

JSC "KPMG Audit"

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



Tereshchenko Yulia Vladyslavivna
Deputy Director
Certified Auditor
Certificate Series A No. 0132
dated 24 December 2009 issued by the Audit
Chamber of Ukraine



26 April 2016

Statement of financial position**As at 31 December 2015***(thousands of Ukrainian hryvnia)*

	Notes	2015	2014
Assets			
Cash and cash equivalents	5	3,192,137	2,731,282
Trading securities	6	-	9,361
Amounts due from credit institutions	7	-	-
Loans to customers	8	11,881,694	9,617,993
Investment securities available-for-sale	9	62	62
Property and equipment		6,765	9,363
Intangible assets		870	1,094
Current income tax assets		9,119	207,269
Other assets	12	12,277	5,535
Total assets		15,102,924	12,581,959
Liabilities			
Amounts due to credit institutions	13	8,420,855	7,180,204
Amounts due to customers	14	3,638,849	3,171,296
Deferred income tax liabilities	10	31,441	42,866
Other liabilities	12	64,889	95,591
Total liabilities		12,156,034	10,489,957
Equity			
Share capital	15	751,579	751,579
Additional paid-in capital		46,278	46,278
Retained earnings		2,149,033	1,294,145
Total equity		2,946,890	2,092,002
Total equity and liabilities		15,102,924	12,581,959

Signed and authorised for release on behalf of the Management Board of the Bank

Chairman of the Board

Erik K.A. Versavel

Deputy Chief Accountant

Liliya Ostakhova



26 April 2016

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

Statement of profit and loss and other comprehensive income**For the year ended 31 December 2015***(thousands of Ukrainian hryvnia)*

	Notes	2015	2014
Interest income			
Loans to customers		1,089,271	722,216
Deposit certificates of the National Bank of Ukraine		278,893	40,160
Trading securities		205	2,210
Amounts due from credit institutions		90	2,894
		1,368,459	767,480
Interest expense			
Amounts due to credit institutions		(40,215)	(34,239)
Amounts due to customers		(61,420)	(14,905)
		(101,635)	(49,144)
Net interest income		1,266,824	718,336
Allowance for loan impairment	8	(129,133)	(144,644)
Net interest income after allowance for loan impairment		1,137,691	573,692
Fee and commission income	17	37,538	33,367
Fee and commission expense	17	(223,677)	(229,480)
Gains less losses from trading securities		362	1,964
Gains less losses from foreign currencies:			
Dealing		166,490	165,198
Translation differences		161,383	142,979
Net gain on sale of loans to customers	8	-	2,453
Other income	18	1,639	12,427
Non-interest income		143,735	128,908
Personnel expenses	19	(121,980)	(102,816)
Depreciation and amortisation		(3,483)	(2,933)
Other administrative and operating expenses	19	(107,228)	(89,207)
Other impairment allowances and provisions	11	(6,907)	(5,649)
Non-interest expense		(239,598)	(200,605)
Profit before income tax		1,041,828	501,995
Income tax expense	10	(186,940)	(91,270)
Profit for the year and total comprehensive income		854,888	410,725
Earnings per share			
Weighted average number of ordinary shares (in number of shares)	15	73,129,804,500	73,129,804,500
Basic and diluted earnings per ordinary share (in hryvnias)	15	0.0117	0.0056

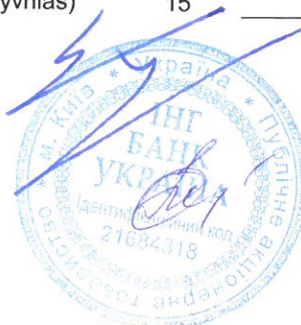
Chairman of the Board

Erik K.A. Versavel

Deputy Chief Accountant

Liliya Ostakhova

26 April 2016



Statement of changes in equity
For the year ended 31 December 2015

(thousands of Ukrainian hryvnia)

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Total</i>
1 January 2014	751,579	13,359	883,420	1,648,358
Total comprehensive income:				
Profit for the year	-	-	410,725	410,725
Total comprehensive income for the year	-	-	410,725	410,725
Transactions with shareholder of the Bank:				
Owner's contribution in the capital	-	40,146	-	40,146
Tax effect of owner's contribution in the capital	-	(7,227)	-	(7,227)
Total transactions with shareholder of the Bank	-	32,919	-	32,919
31 December 2014	751,579	46,278	1,294,145	2,092,002
Total comprehensive income:				
Profit for the year	-	-	854,888	854,888
Total comprehensive income for the year	-	-	854,888	854,888
31 December 2015	751,579	46,278	2,149,033	2,946,890

Chairman of the Board

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Deputy Chief Accountant

Liliya Ostakhova

26 April 2016



Statement of cash flows**For the year ended 31 December 2015***(thousands of Ukrainian hryvnia)*

	<i>Notes</i>	2015	2014
Cash flows from operating activities			
Interest received		815,737	752,163
Interest paid		(84,579)	(50,804)
Fees and commissions received		37,538	33,367
Fees and commissions paid		(223,677)	(229,596)
Realised gains less losses from trading securities		-	12,872
Realised gains less losses from dealing in foreign currencies		166,490	165,314
Net gain on sale of loans to customers		-	2,453
Other income received		1,658	13,480
Personnel expenses paid		(125,426)	(91,253)
Other operating expenses paid		(106,856)	(87,933)
Cash flows from operating activities before changes in operating assets and liabilities		480,885	520,063
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		9,535	248,030
Amounts due from credit institutions		-	1,107,114
Loans to customers		618,222	1,758,716
Other assets		(6,426)	509
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		(758,491)	(1,089,192)
Amounts due to customers		50,090	(1,828,985)
Other liabilities		(39,533)	(2,866)
Net cash flows (used in)/from operating activities before income tax		354,282	713,389
Income tax paid		(215)	(29,043)
Net cash from operating activities		354,067	684,346
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(662)	(6,687)
Proceeds from sale of property and equipment		-	2
Net cash used in investing activities		(662)	(6,685)
Effect of exchange rates changes on cash and cash equivalents		107,450	509,247
Net increase in cash and cash equivalents		460,855	1,186,908
Cash and cash equivalents, 1 January		2,731,282	1,544,374
Cash and cash equivalents, 31 December		3,192,137	2,731,282

Chairman of the Board

Erik K.A. Versavel

Deputy Chief Accountant

Liliya Ostakhova

26 April 2016



(thousands of Ukrainian hryvnia unless otherwise indicated)

1. Principal activities

Public Joint Stock Company "ING Bank Ukraine" (hereinafter – the "Bank") was created as a closed joint stock company according to the Ukrainian legislation and was registered by the National Bank of Ukraine (the "NBU") on 15 December 1997.

The Bank specialises in providing banking services to leading Ukrainian and foreign companies and banks. These services include lending, trade finance, payments and cash and other services. The Bank also opens accounts and offers fixed-term liability products to legal entities. The Bank operates under a general banking licence issued by the NBU. The Bank also is a member of the state deposit insurance scheme in Ukraine.

The activities are conducted principally in Ukraine, although the Bank also conducts transactions on international markets.

The Bank is a wholly owned subsidiary of ING Bank N.V., Netherlands (the "Parent Bank"). The head office is located at 30-A Spasska St., Kyiv, Ukraine.

2. Operating Environment of the Bank and political situation in Ukraine

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest, which started in November 2013, in March 2014 various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued throughout the date of these financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

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

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

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Bank's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

(thousands of Ukrainian hryvnia unless otherwise indicated)

3. Basis of preparation and summary of accounting policies

Statement of compliance

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

Basis of measurement

The financial statements are prepared under the historical cost convention except for trading securities, which are measured at fair value.

Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia ("UAH"). These financial statements are presented in thousands of Ukrainian hryvnia ("UAH thousands"), which is the Bank's functional and presentation currency, unless otherwise indicated.

Inflation 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 current at 31 December 2000 by applying the Consumer Price Indexes to the historical cost, and that these restated values were used as a basis for accounting in subsequent accounting periods (note 15).

Accounting Developments

Changes in accounting policies

There was no early adoption of any standard, changes and amendments to standards which is not yet effective.

Fair value measurement

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

IFRS define a hierarchy of fair value determination which reflects the relative reliability of the various ways of obtaining a fair value:

(a) Active market: Quoted price (Level 1)

Use quoted prices of financial instruments in active markets.

(b) Valuation technique using observable inputs (Level 2)

Use quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use valuation models where all significant inputs are observable.

(thousands of Ukrainian hryvnia unless otherwise indicated)

(c) Valuation technique with significant non-observable inputs (Level 3)

Use valuation models where one or more significant inputs are not observable.

Only if the first best way of determining the fair value is not available may the next best determination method be applied. If possible, the Bank obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques for the statement of financial position items are part of the accounting policies listed below.

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. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

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

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 trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Investments in equity instruments that do not have a quoted market price in an active market are measured at cost less any allowance for impairment.

Offsetting

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

(thousands of Ukrainian hryvnia unless otherwise indicated)

Cash and cash equivalents

Cash and cash equivalents are assets that can be converted into cash at short notice and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash on hand, current accounts with the NBU (not restricted for use by the Bank), deposit certificates issued by the NBU and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards in the foreign exchange and securities markets and foreign currency swaps. Such financial instruments are held for trading and 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 if their fair value is positive and as liabilities if it is negative. Gains and losses resulting from these instruments are included in profit or loss as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

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

Borrowings

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 amounts due to credit institutions and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases 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 recognised in the profit or loss.

Leases

Operating – Bank as 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 recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from 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 a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 reorganisation 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.

Amounts due from credit institutions and loans to customers

(thousands of Ukrainian hryvnia unless otherwise indicated)

For amounts due from credit institutions and loans to customers carried at amortised 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 recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in 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 realised 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 recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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

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

Future cash flows on a group of financial assets that are collectively evaluated 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.

Available-for-sale financial assets

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through 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 derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.

(thousands of Ukrainian hryvnia unless otherwise indicated)

- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

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, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial guarantees

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised, less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except in the following cases:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

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- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

Taxation

Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss unless it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within "administrative and other operating expenses".

Deferred tax

Deferred income tax is provided using the liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions

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

Property and equipment

Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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:

	<u>Years</u>
Equipment	2-12 years
Furniture	8 years
Other tangible assets	2-5 years
Vehicles	5 years
Leasehold improvements	During the minimum of: rent term or useful life

The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate at each financial year-end.

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

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from

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three to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised 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.

Employee benefits

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 significant post-retirement benefits.

Share capital

Share capital and transactions with owners

Ordinary shares are classified as equity. Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 *Financial Reporting in Hyperinflationary Economies*.

External costs directly attributable to the issue of new shares 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 recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Earnings per share

Basic earnings per share are calculated based on profit attributable to shareholders and weighted average number of ordinary shares outstanding during the period, less treasury shares. During the reporting period, no financial instruments with a dilutive effect were outstanding. Therefore, basic earnings per share equal diluted earnings per share.

Contingencies

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

Recognition of income and expense

Revenue is recognised 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 recognised:

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing securities classified as trading 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.

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

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Fee and commission income

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

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income 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 recognised as an adjustment to the effective interest rate on the loan.

- Fee income from providing transaction services

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 recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the 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 recognised in profit or loss as gains less losses from foreign currencies – 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 transaction dates. 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 exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The principal Ukrainian hryvnia exchange rates used in the preparation of these financial statements as at 31 December are as follows:

Currency	31 December 2015	31 December 2014
US dollar	24.000667	15.768556
Euro	26.223129	19.232908

Reporting by segments

In 2015 the Bank operated in one sector of banking activity – full service to large and medium clients, including account service, term deposits and saving accounts, term loans, credit lines, business overdrafts and other forms of financing. From the economic risk perspective, all business loan clients of the bank are located in Ukraine. All above considered, segment analysis is not presented in the financial statements of the Bank.

Total interest income for the year ended 31 December 2015 amounted to UAH 1,368,459 thousand, out of which UAH 278,893 thousands were received as interest income from deposit certificates issued by the NBU (31 December 2014: UAH 768,480 thousand and UAH 40,160 thousand respectively).

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Future changes in accounting policies

Standards and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

New or amended standard	Summary of the requirements	Possible impact on financial statements
IFRS 9 <i>Financial Instruments</i>	<p>IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.</p> <p>IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	<p>The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.</p>
IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i>.</p> <p>The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.</p> <p>IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	<p>The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.</p>
IFRS 16 <i>Leases</i>	<p>IFRS 16 replaces the existing lease accounting guidance in IAS 17 <i>Leases</i>, IFRIC 4 <i>Determining whether an Arrangement contains a lease</i>, SIC-15 <i>Operating Leases – Incentives</i> and SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.</p> <p>Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.</p> <p>IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 <i>Revenue from Contracts with Customers</i> is also adopted.</p>	<p>The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.</p>

The following new or amended standards are not expected to have significant impact on the financial statements of the Bank.

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Annual Improvements to IFRSs - 2012-2014 Cycle – various standards.*
- *Disclosure Initiative (Amendments to IAS 1).*

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4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management made estimates in determining the amounts recognised in the financial statements. The most significant use of estimates is as follows:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available 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 judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

As at 31 December 2015 the Bank recognised an allowance for impairment losses of loans to customers in the amount of UAH 173,435 thousand (2014: UAH 44,200 thousand; Note 8). As at 31 December 2015 the Bank did not recognize the allowance for impairment in respect of certain loans with significant signs of impairment secured by financial guarantees issued by the Parent Bank or banks under its control, as management intends to call on such financial guarantees in full amount in case of inability to negotiate restructuring or settlement of these loans. These financial guarantees are unconditional and irrevocable. As at 31 December 2015, gross carrying value of loans with signs of impairment secured by financial guarantees issued by the Parent Bank or the bank under Parent bank's control amounted to UAH 7,676,723 thousand (2014: UAH 4,996,665 thousand). Management determines that financial guarantees obtained from banks of ING Group form an integral part of another financial instrument to which they are attached, namely loans and advances and thus they are not accounted for separately from that instrument. Instead, the Bank considers the effect of the protection when measuring when estimating the expected cash receipts from loans and advances and when assessing impairment of loans and advances.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions.

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5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	2014
Deposit certificates issued by the NBU for up to 90 days	1,951,438	1,300,784
Correspondent account with the NBU	711,774	765,424
Current accounts with other credit institutions	502,253	646,517
Cash on hand	26,672	18,557
Cash and cash equivalents	3,192,137	2,731,282

The correspondent account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities and the mandatory reserve with the NBU.

There are no strict restrictions imposed by the NBU on withdrawal of mandatory reserves in the National Bank of Ukraine as at 31 December 2015 and 31 December 2014, thus mandatory reserve is included as part of cash and cash equivalents for the respective reporting dates. Withdrawal of such reserves is not restricted. Mandatory reserves in the National Bank of Ukraine consist of amounts reserved under certain liabilities of the Bank calculated in accordance with the requirements of the NBU. As at 31 December 2015, amount of mandatory reserve with NBU, which should be maintained by the Bank on a daily basis amounts to UAH 177,710 thousand (2014: UAH 180,768 thousand).

As at 31 December 2015, UAH 485,576 thousand placed with six OECD banks (2014: UAH 583,436 thousand with seven OECD banks) is included in current accounts with other credit institutions.

As at 31 December 2015, UAH 237,910 thousand placed on current accounts with other credit institutions which are banks of ING Group (2014: UAH 459,465 thousand).

6. Trading securities

As at 31 December 2014, trading securities are represented by Ukrainian State bonds with a carrying value of UAH 9,361 thousand.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2015	2014
Loans and deposits due from banks	8,755	6,583
Gross amounts due from credit institutions	8,755	6,583
Less – Allowance for impairment	(8,755)	(6,583)
Amounts due from credit institutions	-	-

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2015	2014
1 January	6,583	211
Charge	2,172	6,372
31 December	8,755	6,583

8. Loans to customers

Loans to customers comprise:

	2015	2014
Commercial	11,750,704	9,340,640
Overdrafts	236,953	250,925
Retail	67,472	70,628
Gross loans to customers	12,055,129	9,662,193
Less – Allowance for impairment	(173,435)	(44,200)
Loans to customers	11,881,694	9,617,993

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Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<i>Commercial</i>	<i>Overdrafts</i>	<i>Retail</i>	<i>Total</i>
At 1 January 2015	21,610	4,113	18,477	44,200
Charge for the year	112,634	7,589	8,910	129,133
Write-off	102	-	-	102
At 31 December 2015	134,346	11,702	27,387	173,435
Individual impairment	98,917	-	19,304	118,221
Collective impairment	35,429	11,702	8,083	55,214
	134,346	11,702	27,387	173,435
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	248,072	-	23,356	271,428
	<i>Commercial</i>	<i>Overdrafts</i>	<i>Retail</i>	<i>Total</i>
At 1 January 2014	253,203	220	15,702	269,125
Charge/(release) for the year	116,154	3,893	18,225	138,272
Sale of loans	(310,341)	-	-	(310,341)
Release of provision recognized within additional paid-in capital	(40,146)	-	-	(40,146)
Recovery of loans previously written off	2,740	-	-	2,740
Conversion of loans to customers	-	-	(15,450)	(15,450)
At 31 December 2014	21,610	4,113	18,477	44,200
Individual impairment	-	-	10,840	10,840
Collective impairment	21,610	4,113	7,637	33,360
	21,610	4,113	18,477	44,200

As at 31 December 2014, there were no loans, individually determined to be impaired.

During the year 2014 the Bank sold loans to customers with carrying value (net of allowance for impairment) of UAH 236,696 thousand for cash consideration of UAH 239,148 thousand. The net result on disposal of UAH 2,453 thousand was recognised in profit or loss as a net gain on sale of loans to customers.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending – banking and corporate guarantees, charges over real estate properties, inventory and trade receivables;
- For retail lending – mortgages over residential properties, plot of land, property rights.

The Bank also obtains guarantees from ING Group companies for loans granted to corporate customers.

As at 31 December 2015, the total carrying value of loans secured by guarantees received from ING Group was UAH 11,783,710 thousand or 98% of gross carrying value of loans out of which loans with signs of impairment amounted to UAH 7,676,723 thousand (2014: UAH 8,224,381 thousand or 86% and UAH 4,996,665 thousand respectively).

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.

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Concentration of loans to customers

As at 31 December 2015, the Bank had a concentration of loans represented by UAH 10,368,307 thousand due from the ten largest third party borrowers (86% of gross loan portfolio) (2014: UAH 6,996,793 thousand or 58%).

Loans are made principally within Ukraine in the following industry sectors:

	2015	2014
Trade	3,499,879	2,352,667
Energy	2,375,307	1,515,685
Machinery	1,874,525	1,148,465
Services	1,210,189	1,134,434
Chemical	901,043	1,147,268
Agriculture, food and beverages	799,532	1,069,651
Metallurgy	698,220	423,693
Paper industry	337,231	378,765
Communications	277,138	241,156
Tobacco	-	153,096
Retail	67,472	70,628
Other	14,593	26,685
	12,055,129	9,662,193

9. Investment securities available-for-sale

As at 31 December 2015, available-for-sale securities are represented by shares of Ukrainian entities with carrying value of UAH 62 thousand (2014: shares of UAH 62 thousand), which are stated at cost less impairment.

10. Taxation

The corporate income tax expense comprises:

	2015	2014
Current tax charge	198,365	55,348
Deferred tax (benefit)/charge	(11,425)	35,922
Income tax expense	186,940	91,270

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2015	2014
Profit before income tax	1,041,828	501,995
Statutory tax rate	18%	18%
Income tax expense at the statutory rate	187,529	90,359
Non-deductible expenditures	(66)	172
Effect of lower tax rate (10%) for transactions with securities	-	(520)
Correction of previous year current tax expense	(523)	46
Effect of change in tax rates	-	1,213
Income tax expense	186,940	91,270

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Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	<i>2013</i>	<i>in profit or loss</i>	<i>in other comprehensive income</i>	<i>2014</i>	<i>in profit or loss</i>	<i>in other comprehensive income</i>	<i>2015</i>
Tax effect of deductible and taxable temporary differences:							
Amounts due from credit institutions	(771)	773	-	2	(2)	-	-
Securities owned	(1,516)	751	-	(765)	765	-	-
Loans to customers	(717)	(37,433)	(7,227)	(45,376)	13,474	-	(31,902)
Property and equipment	526	(241)	-	285	(41)	-	244
Intangible assets	52	(10)	-	42	(12)	-	30
Other assets	79	45	-	124	(244)	-	(120)
Other liabilities	2,626	193	-	2,822	(2,515)	-	307
Deferred tax asset/(liability)	279	(35,922)	(7,227)	(42,866)	11,425	-	(31,441)

11. Other impairment allowances and provisions

The movements in other impairment allowances and provisions were as follows:

	<i>Other assets</i>	<i>Amounts due from credit institutions</i>	<i>Guarantees and letters of credit issued</i>	<i>Total</i>
31 December 2013	404	211	-	615
Charge	22	6,372	5,627	12,021
31 December 2014	426	6,583	5,627	12,636
(Release)/Charge	(290)	2,172	5,025	6,907
31 December 2015	136	8,755	10,652	19,543

The allowance for impairment of assets is deducted from the carrying amounts of the related assets.

Amounts due from credit institutions represent fully provided balances due from a Ukrainian bank, which is under liquidation as at 31 December 2015.

12. Other assets and liabilities

Other assets comprise:

	<i>2015</i>	<i>2014</i>
Other non-financial assets		
Prepaid expenses	5,287	3,177
Other prepayments	606	283
Total non-financial assets	5,893	3,460
Other financial assets		
Accrued income and other accounts receivable	6,485	2,451
Other	35	50
Total financial assets	6,520	2,501
	12,413	5,961
Less – Allowance for impairment of other assets (Note 11)	(136)	(426)
Other assets	12,277	5,535

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Other liabilities comprise:

	<u>2015</u>	<u>2014</u>
Other non-financial liabilities		
Remunerations for employees payable	15,407	20,732
Provision for credit related commitments	10,652	5,627
Accrual for unused vacation	7,083	5,204
Taxes payable other than income tax	1,953	1,728
Total non-financial liabilities	35,095	33,291
Other financial liabilities		
Payables for services	21,399	29,313
Accrued commission expenses for guarantees received	3,815	24,496
Accrued expenses	3,325	7,899
Transit accounts in respect of transactions with clients	1,200	514
Currency conversion operations	21	42
Other	34	36
Total financial liabilities	29,794	62,300
Other liabilities	64,889	95,591

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2015</u>	<u>2014</u>
Short-term loans and deposits	7,645,972	6,642,400
Long-term loans and deposits	774,883	537,804
Amounts due to credit institutions	8,420,855	7,180,204

As at 31 December 2015, loans and deposits due to credit institutions include funds received from ING Group banks in amount UAH 8,417,911 thousand or 99.97% of amounts due to credit institutions (2014: UAH 7,179,366 thousand or 99.99%).

14. Amounts due to customers

The amounts due to customers include the following:

	<u>2015</u>	<u>2014</u>
Current accounts		
- Legal entities	2,698,704	3,029,367
- Individuals	14,820	12,163
	2,713,524	3,041,530
Time deposits from legal entities	925,325	129,766
Amounts due to customers	3,638,849	3,171,296
Held as security against guarantees	199,802	2,777

As at 31 December 2015, current accounts of legal entities amounting to UAH 1,557,555 thousand (58% of legal entities current accounts) were due to the ten largest third party customers (2014: UAH 1,517,187 thousand or 50%).

As at 31 December 2015, term deposits from legal entities of UAH 858,558 thousand or 93% of term deposits from legal entities were due to the ten third party customers (2014: UAH 129,766 thousand or 100% due to seven third party customers).

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An analysis of customer accounts by economic sector follows:

	2015	2014
Trade	1,579,226	996,825
Services	762,720	524,297
Financial services	481,827	108,518
Transport and communications	286,922	71,049
Agriculture and food processing	225,019	992,619
Chemical	184,835	244,724
Manufacturing	41,064	72,649
Individuals	16,094	13,171
Metallurgy	14,544	83,361
Mining	2,820	4,446
Real estate constructions	823	3,415
Energy	46	40
Machine building	5	98
Other	42,904	56,084
Amounts due to customers	3,638,849	3,171,296

15. Equity and earnings per share

As at 31 December 2015 and 2014, the Bank's authorised issued share capital comprised 73,129,804,500 ordinary shares, with a nominal value of UAH 0.01 per share. All shares have equal voting rights. As at 31 December 2015 and 2014, all issued shares were fully paid and registered.

The balances of share capital were as follows:

	Number of shares	Nominal amount, UAH thousand	Restated cost, UAH thousand
31 December 2015 and 2014	73,129,804,500	731,298	751,579

Basic and diluted earnings per one share comprise:

	2015	2014
Profit for the year, UAH thousand	854,888	410,725
Weighted average number of ordinary shares outstanding (pcs.)	73,129,804,500	73,129,804,500
Basic and diluted earnings per share (UAH per share)	0.0117	0.0056

During 2015 and 2014 the Bank had no financial instruments that could cause dilution or loss or earnings per share due to their conversion into shares.

During 2015 and 2014 there were no changes in the number of ordinary shares of the Bank.

As at 31 December 2015 retained earnings include undistributable reserve of UAH 924,732 thousand (2014: UAH 913,287 thousand). The reserve is created as required by the Ukrainian regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

Should the Bank's operations pose a threat to interests of depositors and other the Bank's creditors, the National Bank of Ukraine has the right to require increase in the reserve and annual charges thereto. If, as a result of bank's operations, regulatory capital is reduced to an amount lower than share capital, annual charges to the reserve must be 10% of the Bank's net profit until the reserve reaches 25% of the Bank's share capital.

The reserve may only be used to cover the Bank's losses for the reporting year in accordance with the decision of the Bank's Board (Supervisory Board) and in accordance with the procedures established by the general meeting of its shareholders. Furthermore, effective Ukrainian legislation envisages no restrictions on distribution of the reserve among bank's shareholders upon bank's liquidation after satisfaction of all creditors' claims.

(thousands of Ukrainian hryvnia unless otherwise indicated)

16. Commitments and contingencies

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that the Bank have complied with all regulations and paid or accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Bank has accrued tax liabilities based on management's best estimate.

The Bank's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The Bank believes that obligations that could arise as a result of these contingencies, as relating to its operations, would not be more significant than those of similar enterprises in Ukraine.

Tax Code of Ukraine, which provides separate rules for the recognition of income and expenses for income tax purposes, in many cases does not provide explicit guidance on the application of these rules in practice. There is a possibility that, due to the development of regulations and changes in approaches to the interpretation and application of the rules used by the tax authorities of Ukraine and/or the courts, additional obligations and related penalties may be accrued which may adversely affect the financial position of the Bank. Detailed information about such contingent liabilities is not disclosed in these financial statements due to the uncertainty of the possible consequences in case of different interpretation of tax legislation by tax authorities. However, the management expects to resolve the issues in favour of the Bank in case of any claim from the tax authorities.

Transfer pricing

On 1 September 2013 the Law "On Amendments to the Tax Code of Ukraine (Regarding Transfer Pricing)" came into force (the "TP Law"). The TP Law introduces special TP reporting that must be filed with the tax authorities by 1 May each year. Additionally, the tax authorities are entitled to request transfer pricing documentation about controlled transactions. The taxpayers must provide such documentation within one month of receiving this request.

Based on these legislative requirements, the transactions between the Bank and related parties are subject to transfer pricing compliance and reporting. The Bank should thus file transfer pricing reporting with the tax authorities and be ready to provide relevant transfer pricing documentation at their request.

Considering the recent implementation of these rules, there is no practice of their application by the tax authorities, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's approach and assess fines and penalties. In addition, the main difficulties in determining the controlled transactions and reporting is the lack of legislative criteria for determining normal prices for services received (including payments for guarantees) and interest on loans received from related parties may lead to ambiguous definition of the value of these parameters and expose the Bank to fines.

Commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	2015	2014
Credit related commitments		
Letters of credit	703,047	519,149
Guarantees	239,328	244,210
Undrawn loan commitments	6,580,495	4,871,447
Commitments and contingencies	7,522,870	5,634,806

As at 31 December 2015, undrawn loan commitments include of irrevocable loan commitments in amount of UAH 108,114 thousand (2014: UAH 32,364 thousand). The rest of undrawn loan commitments are revocable.

*(thousands of Ukrainian hryvnia unless otherwise indicated)***17. Net fee and commission expense**

Net fee and commission expense comprises:

	2015	2014
Documentary operations	17,600	16,833
Settlement operations	15,075	11,223
Credit service	4,500	3,235
Operations with securities	363	2,076
Fee and commission income	37,538	33,367
Fee and commission expenses for guarantees obtained from ING Group	(218,757)	(226,038)
Settlement operations	(4,858)	(3,256)
Operations with securities	(30)	(124)
Other	(32)	(62)
Fee and commission expense	(223,677)	(229,480)
Net fee and commission expense	(186,139)	(196,113)

Included in commission expense are commissions for guarantees obtained from ING Group companies to cover credit risk on loans granted by the Bank to corporate customers (Note 8 and Note 4).

18. Other income

	2015	2014
Penalties received	809	1,849
Consulting	475	10,128
Sub-leasing	156	148
Gain on disposal of property, equipment and intangible assets	43	-
Other	156	302
Total other income	1,639	12,427

19. Personnel and other administrative and operating expenses

Personnel and other operating expenses comprise:

	2015	2014
Salaries and bonuses	110,634	91,735
Social security costs	11,346	11,081
Personnel expenses	121,980	102,816
Repair and maintenance	55,895	47,075
Occupancy and rent	16,017	16,715
Operational and maintenance	11,578	8,281
Consulting	10,784	6,315
Business trips	3,781	2,193
EDP cost	2,419	3,659
Communications	1,784	1,444
Security	520	477
Penalties paid	8	2,073
Other	4,442	975
Other administrative and operating expenses	107,228	89,207

20. Risk management**Introduction**

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the risk management process. The risk management process is decisive for ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for respecting the risk management rules and procedures in the course of fulfilling their tasks and duties.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Risk management structure

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures to manage the exposure to internal and external risk factors.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Risk management policies, monitoring and control are conducted by a Informational/Operational Risk Management Department ("IORMD") and Risk Management Department (CRMD), which is under the supervision of the Asset and Liability Management Committee ("ALCO"). The ALCO is supervised by the Supervisory Board and the Management Board and specialised divisions of the Parent Bank.

The Supervisory Board has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those that are outside of the scope of the authority of the Management Board and other governing bodies. Specifically, the Supervisory Board is responsible for appointing the external auditor and for establishing the procedure for auditing and monitoring the financial and economic activities. The Supervisory Board's Risk Management Committee determines the overall risk management strategy. The Management Board is directly responsible for its implementation.

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its powers with respect to assets, liabilities and risks management to the ALCO.

The ALCO is chaired by the Head of Risk Management Division. The ALCO meets at least once every month or more frequently if required. The ALCO is responsible for the control and management of the asset and liability structure. It also monitors interest rates and maturity limits and compares key performance indicators with those of competitors. In addition, the ALCO is responsible for managing liquidity risks and monitoring compliance with the limits, reviewing reports on liquidity, interest and foreign exchange risk.

The Credit Committee is responsible for ratification of loans granting, implementing the lending strategy, coordinating the activities of the departments and forming a balanced and diversified loan portfolio. Approval and ratification from the Credit Committee is required to grant loans, make provisions and recover debt (including signing loan agreements and bringing claims or legal proceedings).

The CMRA assists the ALCO and the various committees in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing levels of risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The CMRA evaluates financial risks using information on parameters of assets and liabilities (including interest rates, amounts and maturities) from the business divisions, information on exposure limits, procedures and methodologies from the ALCO. It then provides the ALCO with the results of its risk analysis and monitoring and recommendations on setting or changing limits, and informs the business divisions, back office, etc. of the normative risk levels. Initial monitoring of certain financial risks is performed as well by other divisions, such as Financial markets and treasury administration ("FMT A") and Credit department ("CD").

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Management Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits. In general, the Bank uses the risk assessment/management methods used by ING Group to the extent they are in line with regulations of the NBU.

The Internal Audit Department is responsible for monitoring compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Supervisory Board.

The principal categories of risks to which the Bank is exposed through its operations and the way the Bank manages these risks are described below.

Risk mitigation

The Bank does not use derivatives for the management of risks arising from changes in interest rates, credit risk and liquidity risk.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The Bank extensively uses collateral to minimise credit risk.

Excessive risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

Identified risk concentrations are controlled and managed.

Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country, and industry risk).

For risk management purposes, credit risk arising on trading securities is managed independently and reported as a component of market risk exposure.

The Bank manages its credit risk by establishing internal policies aimed at maximising risk adjusted profit by maintaining credit risk exposure within accepted parameters by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by actively monitoring the performance of its customers. The Bank deal with counterparties of good credit standing and, when appropriate, obtains collateral. The credit policy is reviewed and approved by the Management Board.

The CMRA determines levels of overall risk exposure by reference to customers and products and regularly evaluates customers' creditworthiness and business performance.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, expected return on the loan, the liquidity of the proposed collateral and whether it is acceptable in view of the credit risk, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, as long as the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate or requiring additional collateral or guarantees from such borrower.

The Bank also considers credit risk associated with the industry in which the borrower operates. The Bank has developed an internal credit rating system whereby each borrower is assigned ratings based on (i) financial and operational ratios, (ii) financial position, (iii) market position and management effectiveness. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the international ratings, if any, and financial statements audited by recognised auditors, allocating various credit ratings to the borrowers. The Bank evaluates the borrower's financial statements, credit history, and cash flows in order to determine the expected risk of default for such borrower and also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector.

The borrower's financial standing is subject to continual monitoring and review on a quarterly basis or as the business may require.

The Bank structures the levels of credit risk it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly (at least monthly).

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower or other ING Group division, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project financing and requires cash flows from the financed project or counterparties to be directed to the current accounts opened with the Bank. In the case of loans to retail customers, the Bank takes collateral to secure such loans. As the lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional factors when determining the value of collateral.

The Bank establishes an allowance for loan losses that represent its estimates of losses incurred in its loan portfolio.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The Bank writes off a loan balance (and any related provision for impairment losses) when the Credit Committee determines that the loan is uncollectible and when all necessary steps to collect the loan are completed. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Credit-related commitments 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 under the terms of the financial guarantees or letters of credit. These arrangements expose the Bank to similar risks to loans and these are mitigated by similar control procedures and policies. Refer to note 16 for the amount of credit related commitments and related provisions and cash collateral.

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

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

Credit quality by class of financial assets

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

31 December 2015

	Notes	Neither past due nor individually impaired			Past due or individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
Cash and cash equivalents, excluding cash on hand	5	3,165,465	-	-	-	3,165,465
Amounts due from credit institutions	7	-	-	-	8,755	8,755
Loans to customers:	8					
- Commercial		544,899	6,419,952	-	4,785,853	11,750,704
- Overdrafts		-	236,953	-	-	236,953
- Retail		25,113	15,907	-	26,452	67,472
Total		3,735,477	6,672,812	-	4,821,060	15,229,349

31 December 2014

	Notes	Neither past due nor individually impaired			Past due or individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
Cash and cash equivalents, excluding cash on hand	5	2,712,722	3	-	-	2,712,725
Amounts due from credit institutions	7	-	-	-	6,583	6,583
Loans to customers:	8					
- Commercial		274,770	8,061,533	-	1,004,337	9,340,640
- Overdrafts		-	250,925	-	-	250,925
- Retail		-	68,234	-	2,394	70,628
Total		2,987,492	8,380,695	-	1,013,314	12,381,501

In the table above loans to banks and customers of high grade are those having a minimal level of credit risk or very well collateralised. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

(thousands of Ukrainian hryvnia unless otherwise indicated)

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

	2015			Total
	Less than 30 days	31 to 60 days	More than 90 days	
Corporate customers	954,479	73,743	3,509,559	4,537,781
Retail	3,096	-	-	3,096
Total	957,575	73,743	3,509,559	4,540,877

	2014			Total
	Less than 30 days	31 to 60 days	More than 90 days	
Corporate customers	-	394,511	609,826	1,004,337
Retail	28	-	2,366	2,394
Total	28	394,511	612,192	1,006,731

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including residential mortgages) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

*(thousands of Ukrainian hryvnia unless otherwise indicated)***Geographical concentration**

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	2015			
	Ukraine	OECD	CIS and other non-OECD countries	Total
Assets:				
Cash and cash equivalents	2,690,744	485,563	15,830	3,192,137
Trading securities	62	-	-	62
Loans to customers	11,881,694	-	-	11,881,694
Other financial assets	6,520	-	-	6,520
	14,579,020	485,563	15,830	15,080,413
Liabilities:				
Amounts due to credit institutions	-	8,420,855	-	8,420,855
Amounts due to customers	3,592,371	46,223	255	3,638,849
Other financial liabilities	4,580	25,214	-	29,794
	3,596,951	8,492,292	255	12,089,498
Net position	10,982,069	(8,006,729)	15,575	2,990,915
	2014			
	Ukraine	OECD	CIS and other non-OECD countries	Total
Assets:				
Cash and cash equivalents	2,085,351	583,436	62,495	2,731,282
Trading securities	9,361	-	-	9,361
Investment securities available-for-sale	62	-	-	62
Loans to customers	9,617,993	-	-	9,617,993
Other financial assets	2,501	-	-	2,501
	11,715,268	583,436	62,495	12,361,199
Liabilities:				
Amounts due to credit institutions	-	7,180,204	-	7,180,204
Amounts due to customers	3,115,315	51,213	4,768	3,171,296
Other financial liabilities	8,491	53,809	-	62,300
	3,123,806	7,285,226	4,768	10,413,800
Net position	8,591,462	(6,701,790)	57,727	1,947,399

Liquidity risk and funding management

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate period.

The process of managing liquidity risk is continuous. The Bank's Treasury carries out day-to-day monitoring of short-term exposure to liquidity risk. Senior management receives weekly analysis and daily reports and the ALCO performs a monthly review of liquidity risk management.

The Bank assesses liquidity risk based on gap analysis, that is, an analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having the same maturity are used to calculate the cumulative gap, which is subject to certain limits. These limits are determined by the ability to source funds on the money markets. Such limits may be reviewed, depending on changes in the Bank's capacity to source funds. The RMD is responsible for making recommendations with respect to changing limits, which are subject to review by the ALCO and approval of the responsible division of the Parent Bank. In addition, the Bank has procedures that apply in the event these limits are exceeded, as well as contingency plans for unforeseen situations.

The risks associated with the concentration of loans and deposits require continuous monitoring. Management acknowledges the risks associated with possible high concentrations of assets and liabilities and seeks to match maturities of high-value corporate loans and deposits, which management views as a means of managing liquidity and interest rate risk. The Bank has access to a diverse funding base, including deposits, subordinated liabilities and share capital, which enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank also holds a portfolio of liquid assets as part of its liquidity risk management. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels more effectively.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the NBU. The liquidity position is assessed and managed by the Bank by its own efforts, based on certain liquidity ratios established by the NBU as described in the Short-Term Liquidity Risk Management section.

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

	2015, %	2014, %
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / liabilities repayable on demand) (minimum required by the NBU – 20%)	123.62	57.01
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	119.55	170.95
N6 "Short-Term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including commitments and contingencies) (minimum required by the NBU– 60%)	87.25	106.71

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

Financial liabilities As at 31 December 2015	Within one month	From 1 to 3 months	3 months to one year	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	2,664,578	4,988,897	28,081	755,731	-	8,437,287
Amounts due to customers	3,278,245	370,606	-	-	-	3,648,851
Other financial liabilities	29,794	-	-	-	-	29,794
Total undiscounted financial liabilities	5,972,617	5,359,503	28,081	755,731	-	12,115,932

Financial liabilities As at 31 December 2014	Within one month	From 1 to 3 months	3 months to one year	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	3,225,959	3,309,533	127,498	534,726	-	7,197,716
Amounts due to customers	3,132,334	39,478	-	-	-	3,171,812
Other financial liabilities	62,300	-	-	-	-	62,300
Total undiscounted financial liabilities	6,420,593	3,349,011	127,498	534,726	-	10,431,828

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.

The table below shows the earliest expiry of the Bank's financial commitments and contingencies before deduction of cash held as security against letters of credit, guarantees and promissory notes guarantees.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2015	7,522,870	-	-	-	7,522,870
2014	5,634,806	-	-	-	5,634,806

The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

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 within one month in the tables above.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect cash flows or the fair value of the Bank's portfolios of financial instruments. The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates.

The Bank's Treasury applies for limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the ALCO and approved of the responsible division of the Parent Bank. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed as at the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALCO meetings. In addition to applying standard calculations, the Bank uses stress-tests.

These involve determining the level of interest-rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management.

2015					
Currency	Base for interest rate	Increase in basis points	Effect on profit before tax	Decrease in basis points	Effect on profit before tax
USD	LIBOR	+200	14,206	-200	(14,206)
EUR	LIBOR	+200	(323)	-200	323
Total			13,883		(13,883)

2014					
Currency	Base for interest rate	Increase in basis points	Effect on profit before tax	Decrease in basis points	Effect on profit before tax
USD	LIBOR	+200	7,414	-200	(7,414)
EUR	LIBOR	+200	(1,933)	-200	1,933
Total			5,481		(5,481)

Currency risk

Exchange rate risk is the risk of losses resulting from adverse movements in foreign currency exchange rates. Exchange rate risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currencies as at the reporting date.

The Bank evaluates, monitors and sets limits for long and short foreign exchange positions. The policy with regard to open foreign currency positions is restricted to certain thresholds under Ukrainian law and is strictly monitored by the NBU on a daily basis.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The following table shows the distribution of the Bank's financial assets and liabilities across its material operating foreign currencies as at 31 December 2015:

	USD	EUR	Other currencies
Assets			
Cash and cash equivalents	273,654	221,826	30,108
Loans to customers	9,224,796	1,325,901	-
Other assets	-	4,908	-
Total assets	9,498,450	1,552,635	30,108
Liabilities			
Amounts due to credit institutions	(7,174,013)	(1,243,877)	-
Amounts due to customers	(1,606,817)	(300,372)	(26,529)
Other liabilities	(7,328)	(24,518)	(3,483)
Total liabilities	(8,788,158)	(1,568,767)	(30,012)
Net balance sheet position	710,292	(16,132)	96

The following table shows the distribution of the Bank's financial assets and liabilities across its material operating foreign currencies as at 31 December 2014:

	USD	EUR	Other currencies
Assets			
Cash and cash equivalents	129,436	242,329	185,716
Loans to customers	6,983,405	960,335	-
Other assets	-	80	15
Total assets	7,112,841	1,202,744	185,731
Liabilities			
Amounts due to credit institutions	(6,073,124)	(912,343)	-
Amounts due to customers	(751,791)	(262,740)	(182,283)
Other liabilities	(41,849)	(23,078)	-
Total liabilities	(6,866,764)	(1,198,161)	(182,283)
Net balance sheet position	246,077	4,583	3,448

(thousands of Ukrainian hryvnia unless otherwise indicated)

The ALCO sets limits on the level of exposure by currencies. Such limits are reviewed in the event of volatility in foreign exchange rates. The ALCO may amend limits based on recommendations by the RMD. The Bank monitors compliance with such limits on a daily basis. Reports on changes in currency positions are provided to management on a weekly and a monthly basis.

Currency	2015		2014	
	Change in currency rate	Effect on profit before tax	Change in currency rate	Effect on profit before tax
USD	+50.00%	355,146	+50.00%	123,039
EUR	+50.00%	(8,066)	+50.00%	2,292
Total		347,080		125,331
USD	-10.00%	(71,029)	-10.00%	(24,608)
EUR	-10.00%	(1,613)	-10.00%	(458)
Total		(72,642)		(25,066)

The effect on equity would be the same as disclosed in the table above except for the effect of tax of 18%.

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 may cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank does not expect to eliminate all operational risks, but a control framework, monitoring and timely responding to potential risks are effective tools to manage the risks. Controls include the effective segregation of duties, access rights, authorisation procedures, staff training and assessment processes. Currently, operational risks are considerably reduced due to more strict observance of the requirements of technological processes.

21. Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Banks's statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

As at 31 December 2015:

Type of financial assets	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position	Net amount
Loans to customers	11,870,102	-	11,870,102	(1,084,630)	10,785,472
Total	11,870,102	-	11,870,102	(1,084,630)	10,785,472

As at 31 December 2014:

Type of financial assets	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities offset in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position	Net amount
Loans to customers	9,205,473	-	9,205,473	(715,093)	8,490,380
Total	9,205,473	-	9,205,473	(715,093)	8,490,380

Related amounts that are not offset in the statement of financial position represents due to customers balances.

(thousands of Ukrainian hryvnia unless otherwise indicated)

22. Fair value measurement

The Bank uses the following hierarchic methods of measurement to determine and disclose the fair values of financial instruments (refer to Note 3):

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are based on observable market data, either directly or indirectly.
- Level 3: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are not based on observable market data.

The table below shows the analysis of financial instruments presented by hierarchic levels of fair value sources as at 31 December 2015 and 2014:

31 December 2015	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	-	3,192,137	-	3,192,137
Loans to customers	-	-	11,881,694	11,881,694
Other financial assets	-	6,520	-	6,520
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	8,420,855	-	8,420,855
Amounts due to customers	-	3,638,849	-	3,638,849
Other financial liabilities	-	-	29,794	29,794
31 December 2014				
Assets measured at fair value				
Trading securities	-	9,363	-	9,363
Investment securities available-for-sale	-	62	-	62
Assets for which fair values are disclosed				
Cash and cash equivalents	-	2,731,282	-	2,731,282
Loans to customers	-	-	9,617,993	9,617,993
Other financial assets	-	2,501	-	2,501
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	7,180,204	-	7,180,204
Amounts due to customers	-	3,171,296	-	3,171,296
Other financial liabilities	-	-	62,300	62,300

The estimated fair values of financial assets and liabilities is determined using market prices for actively traded financial assets and discounted cash flow and other appropriate valuation methodologies as at the reporting date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Fair value estimates are based on judgements regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors, and the discount rate is a market related rate for a similar instrument at the reporting date.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

The fair values of all short-term financial assets and liabilities are assumed to equal their carrying values due to their short-term nature, regular re-pricing periods and/or market interest rates at period end. The fair value of loans and deposits with maturities greater than one year approximate their carrying value because for substantially all loans and deposits the Bank has applied floating interest rates that consider current value of cash flows and market conditions.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

(thousands of Ukrainian hryvnia unless otherwise indicated)

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

	2015			2014		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Assets						
Cash and cash equivalents	3,192,137	-	3,192,137	2,731,282	-	2,731,282
Trading securities	-	-	-	9,361	-	9,361
Loans to customers	6,851,965	5,029,729	11,881,694	7,556,102	2,061,891	9,617,993
Investment securities available-for-sale	-	62	62	62	-	62
Property and equipment	-	6,765	6,765	-	9,363	9,363
Intangible assets	-	870	870	-	1,094	1,094
Corporate current tax asset	9,119	-	9,119	207,269	-	207,269
Other assets	12,206	71	12,277	5,535	-	5,535
Total assets	10,065,427	5,037,497	15,102,924	10,509,611	2,072,348	12,581,959
Liabilities						
Amounts due to credit institutions	7,670,402	750,453	8,420,855	6,656,478	523,726	7,180,204
Amounts due to customers	3,638,849	-	3,638,849	3,171,296	-	3,171,296
Deferred income tax liabilities	15,418	16,023	31,441	-	42,866	42,866
Other liabilities	64,889	-	64,889	95,591	-	95,591
Total liabilities	11,389,558	766,476	12,156,034	9,923,365	566,592	10,489,957
Net	(1,324,131)	4,271,021	2,946,890	586,246	1,505,756	2,092,002

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 within one year in the table above.

24. Related party disclosures

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.

Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions, at the year-end are as follows:

	2015			2014		
	Parent Bank	Key management personnel	Entities under common control	Parent Bank	Key management personnel	Entities under common control
Cash and cash equivalents, (denominated mainly in USD and EUR)	221,944	-	15,966	375,396	-	41,177
Loans (contractual interest rate: UAH: 6%)	-	5,022	-	-	6,162	-
Long term deposits (contractual interest rate: USD: 0.94% - 3.96%, EUR: 0.27% - 0.32%)	194,945	-	578,416	142,940	-	395,225
Short term deposits (contractual interest rate: USD: 0.37% - EUR 0.01%)	1,048,925	-	6,594,075	769,325	-	5,714,680
Commitments and guarantees received (denominated in USD and EUR)	13,704,745	-	3,949,043	8,465,674	-	8,043,043

(thousands of Ukrainian hryvnia unless otherwise indicated)

As at 31 December 2015, cash and cash equivalents of UAH 237,910 thousand placed on current accounts with other credit institutions which are banks of ING Group (2014: UAH 459,465 thousand) (Note 5).

The income and expense arising from related party transactions are as follows:

	<i>For the year ended 31 December</i>					
	<i>2015</i>			<i>2014</i>		
	<i>Parent Bank</i>	<i>Key management personnel</i>	<i>Entities under common control</i>	<i>Parent Bank</i>	<i>Key management personnel</i>	<i>Entities under common control</i>
Interest income	-	372	-	20	474	-
Allowance for loan impairment	-	(907)	-	-	(118)	-
Interest expense	(753)	-	(44,401)	(993)	-	(33,763)
Fee and commission income	-	39	38	32	19	20
Other income	-	-	138	-	-	79
Fee and commission expenses	(219,072)	(12)	(177)	(226,291)	-	(227)

Guaranties received from ING Group companies represent irrevocable unconditional guarantees for credit risk cover on loans granted by the Bank to corporate customers.

The aggregate short-term benefits accrued to the key management personnel for 2015 is UAH 25,818 thousand (2014: UAH 24,532 thousand).

25. Capital adequacy

The Bank maintains an actively managed adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business and to maximise 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 shares. No changes were made in the objectives, policies and processes from the previous years.

The NBU requires banks to maintain a capital adequacy ratio of 10% of the amount of risk-weighted assets, computed in accordance with the NBU requirements. As at 31 December 2015 and 2014, the Bank complied with the NBU requirements concerning capital adequacy ratio.

26. Subsequent events

As at the date of these financial statements exchange rate of UAH to USD is 25.338921 and UAH to EUR is 28.541761.

Subsequently to 31 December 2015 it was decided to transfer loans to customers with carrying amount of UAH 2,926,520 thousand to the Parent Bank or companies under common control of the Parent Bank. The transaction is not yet executed.