Public Joint-Stock Company
“ING Bank Ukraine”

Financial statements

Year ended 31 December 2014
together with Independent auditors’ report
Translation from Ukrainian original

Building a better working world

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Independent Auditors' Report (Audit Opinion)

To the Shareholder and Management Board of ING Bank Ukraine

Report on the Financial Statements

We have audited the accompanying financial statements of ING Bank Ukraine («the Bank»), which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. 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 financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 2014, 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 current political and economic situation in Ukraine. The circumstances referred to in Note 2 could continue to adversely affect the financial position and performance of the Bank in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Ernst & Young Audit Services LLC

23 April 2015
Kyiv, Ukraine

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Translation from Ukrainian original

Statement of financial position

As at 31 December 2014

(thousands of Ukrainian hryvnia)

	Notes	*2014*	*2013*
Assets			
Cash and cash equivalents	5	2,731,282	1,544,374
Trading securities	6	9,361	273,571
Amounts due from credit institutions	7	–	1,060,899
Derivative financial assets		–	92
Loans to customers	8	9,617,993	6,562,253
Investment securities available-for-sale	9	62	62
Property and equipment		9,363	5,327
Intangible assets		1,094	1,378
Current income tax assets	10	207,269	233,577
Deferred income tax assets	10	–	279
Other assets	12	5,535	6,696
Total assets		**12,581,959**	**9,688,508**
Liabilities			
Amounts due to credit institutions	13	7,180,204	4,144,422
Amounts due to customers	14	3,171,296	3,846,233
Derivative financial liabilities		–	6,629
Deferred income tax liabilities	10	42,866	–
Other liabilities	12	95,591	42,864
Total liabilities		**10,489,957**	**8,040,148**
Equity	15		
Share capital		751,579	751,579
Additional paid-in capital		46,278	13,359
Retained earnings		1,294,145	883,422
Total equity		**2,092,002**	**1,648,360**
Total equity and liabilities		**12,581,959**	**9,688,508**

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

Acting Chairman of the Board Olena Mykhalchenko

Chief Accountant Oksana Chizhevskaya

22 April 2015

Україна * Публічне акціонерне товариство * м. Київ
ІНГ БАНК УКРАЇНА
Ідентифікаційний код 21684818

Statement of comprehensive income

For the year ended 31 December 2014

(thousands of Ukrainian hryvnia)

	Notes	*2014*	*2013*
Interest income			
Loans to customers		722,216	595,368
Amounts due from credit institutions		2,894	572
Investment securities available-for-sale		–	5,887
Operations with the National Bank of Ukraine		40,160	3,233
		765,270	**605,060**
Trading securities		2,210	23,435
		767,480	**628,495**
Interest expense			
Amounts due to credit institutions		(34,239)	(30,214)
Amounts due to customers		(14,905)	(24,307)
		(49,144)	**(54,521)**
Net interest income		**718,336**	**573,974**
Allowance for loan impairment	7, 8	(144,644)	(209,621)
Net interest income after allowance for loan impairment		**573,692**	**364,353**
Fee and commission income	17	33,367	34,922
Fee and commission expense	17	(229,480)	(182,612)
Gains less losses from trading securities		1,964	44,883
Gains less losses from foreign currencies			
Dealing		165,198	98,719
Translation differences		142,979	(5,690)
Net gain on sale of loans to customers	8	2,453	15,091
Other income	18	12,427	4,830
Non-interest income		**128,908**	**10,143**
Personnel expenses	19	(102,816)	(80,461)
Depreciation and amortisation		(2,933)	(3,249)
Other administrative and operating expenses	19	(89,207)	(67,188)
Other impairment allowances and provisions	11	(5,649)	78
Non-interest expense		**(200,605)**	**(150,820)**
Profit before income tax expense		**501,995**	**223,676**
Income tax expense	10	(91,270)	(38,580)
Profit for the year		**410,725**	**185,096**
Other comprehensive income		–	–
Total comprehensive income for the year		**410,725**	**185,096**
Basic and diluted earnings per ordinary share for the year (UAH per share)	15	**0,0056**	**0,0025**

Україна * м. Київ * ІНГ БАНК УКРАЇНА Ідентифікаційний код 21684818 Публічне акціонерне товариство

Acting Chairman of the Board — Olena Mykhalchenko

Chief Accountant — Oksana Chizhevskaya

22 April 2015

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2014

(thousands of Ukrainian hryvnia)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total*
1 January 2013	**751,579**	**13,359**	**1,224,324**	**1,989,262**
Net profit for the year	–	–	185,096	**185,096**
Dividends paid	–	–	(526,000)	**(526,000)**
31 December 2013	**751,579**	**13,359**	**883,420**	**1,648,358**
Net profit for the year	–	–	410,725	**410,725**
Owner's contribution to the capital (Note 8)	–	40,146	–	**40,146**
Tax effect of owner's contribution to the capital (Note 10)	–	(7,227)	–	**(7,227)**
31 December 2014	**751,579**	**46,278**	**1,294,145**	**2,092,002**

Acting Chairman of the Board Olena Mykhalchenko

Chief Accountant Oksana Chizhevskaya

22 April 2015

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2014

(thousands of Ukrainian hryvnia)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		752,163	658,454
Interest paid		(50,804)	(75,906)
Fees and commissions received		33,367	34,922
Fees and commissions paid		(229,596)	(182,612)
Realised gains less losses from trading securities		12,872	44,883
Realised gains less losses from dealing in foreign currencies		165,314	98,717
Net gain on sale of loans to customers		2,453	15,091
Other income received		13,480	4,830
Personnel expenses paid		(91,253)	(86,178)
Other operating expenses paid		(87,933)	(67,188)
Cash flows from operating activities before changes in operating assets and liabilities		**520,063**	**445,013**
Net (increase)/decrease in operating assets			
Trading securities		248,030	(77,181)
Amounts due from credit institutions		1,107,114	(80,352)
Loans to customers		1,758,716	1,728,646
Other assets		509	1,077
Net decrease in operating liabilities			
Amounts due to credit institutions		(1,089,192)	(624,018)
Amounts due to customers		(1,828,985)	(567,243)
Other liabilities		(2,866)	(23,015)
Net cash flows from operating activities before income tax		**713,389**	**802,927**
Income tax paid		(29,043)	(290,961)
Net cash from operating activities		**684,346**	**511,966**
Cash flows from investing activities			
Proceeds from sale and redemption of available-for-sale securities		–	3,329
Purchase of property, equipment and intangible assets		(6,687)	(1,544)
Proceeds from sale of property and equipment		2	1,978
Net cash (used in)/from investing activities		**(6,685)**	**3,763**
Cash flows from financing activities			
Dividends paid		–	(526,000)
Net cash used in financing activities		**–**	**(526,000)**
Effect of exchange rates changes on cash and cash equivalents		509,247	670
Net increase/(decrease) in cash and cash equivalents		**1,186,908**	**(9,601)**
Cash and cash equivalents, 1 January		**1,544,374**	**1,553,975**
Cash and cash equivalents, 31 December	5	**2,731,282**	**1,544,374**

Україна * м. Київ * ІНГ БАНК УКРАЇНА Ідентифікаційний код 21684818 Публічне акціонерне товариство

Acting Chairman of the Board — Olena Mykhalchenko

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22 April 2015

The accompanying notes on pages 5 to 39 are an integral part of these financial statements.

(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 has trading securities licence issued by the State Commission on Securities and Stock Market and is a member of the state deposit insurance program 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 head office is located at 30-A Spasska St., Kyiv, Ukraine.

2. Operating environment and political situation in Ukraine

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

In 2014, Ukrainian political and economic situation deteriorated significantly. There was a secession of the Autonomous Republic of Crimea and its accession to the Russian Federation. During 2014 there were full-fledged armed confrontations in certain parts of the Donetsk and Lugansk regions which still continue. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

From 1 January 2014 and up to the date of the issuance of these financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 187% calculated based on the National Bank of Ukraine (the "NBU") exchange rate of UAH to US Dollar. The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements, and also mandated more strict requirements with regard to obligatory conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Bank in the reporting period have been taken into account in preparing these financial statements. As at 31 December 2014 the Bank had loan to a customer that operated in the regions under the conflict with carrying value of UAH 647,324 thousand or 5.1% of Bank's total assets. No allowance was recognized in respect of that loan as it was fully secured by irrevocable guarantee of ING Bank N.V.

The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate.

Stabilisation of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

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

3. Basis of preparation 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 as disclosed in the accounting policies below. For example, trading, available-for-sale securities and derivatives 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.

Changes in accounting policies and disclosures – new and amended standards and interpretations

The Bank has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014:

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Bank, since the Bank does not qualify to be an investment entity under IFRS 10.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Bank's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Bank's financial statements as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Bank, since the Bank has not novated its derivatives during the current period.

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

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

3. Basis of preparation and summary of accounting policies (continued)

Fair value measurement

The Bank measures financial instruments, such as trading securities, available-for-sale securities at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 21.

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

The best source of fair value as at initial recognition of financial instruments is a price of the deal. If the Bank considers that fair value as at recognition date differs from price of the deal:

- Bank recognizes the difference between fair value at initial recognition and price of the deal as income or expenses in case, if such fair value is supported by quotations (unadjusted) on active market for the similar assets and liabilities (level 1) or based on calculation methodology, which includes only observable information.
- In other cases initial valuation of financial instrument is adjusted in future periods by the difference between fair value at initial recognition and deal price. After initial recognition Bank recognizes these deferred difference as income or expenses only when outgoing data become observable or instrument is derecognized.

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

(thousands of Ukrainian hryvnia unless otherwise indicated)

3. Basis of preparation and summary of accounting policies (continued)

Financial assets (continued)

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 statement of comprehensive income.

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 the statement of comprehensive income 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 the statement of 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 the statement of comprehensive income within other comprehensive income is included to 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.

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.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in the event that the transferee has the right by contract or custom to sell or repledge them, they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the result on the sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

3. Basis of preparation and summary of accounting policies (continued)

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 the statement of comprehensive income 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 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, amounts due to customers and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income 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 statement of comprehensive income.

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 the statement of comprehensive income 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

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.

3. Basis of preparation and summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. 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 the statement of comprehensive income.

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 the profit or loss – is removed from other comprehensive income in the statement of comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income in the statement of 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 the 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.
- 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.

3. Basis of preparation and summary of accounting policies (continued)

Impairment of financial assets (continued)

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 the statement of comprehensive income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the financial statements at fair value as 'Other liabilities' being the premium received. After the initial recognition the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

(thousands of Ukrainian hryvnia unless otherwise indicated)

3. Basis of preparation and summary of accounting policies (continued)

Taxation

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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:

	Years
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 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.

3. Basis of preparation and summary of accounting policies (continued)

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. The results of transactions with owners acting in their capacity as owners are recognized in respective component within equity.

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.

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.

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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

3. Basis of preparation and summary of accounting policies (continued)

Recognition of income and expense (continued)

- 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

The financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded 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 the statement of comprehensive income 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 2014*	*31 December 2013*
US dollar	15.7686	7.9930
Euro	19.2329	11.0415

Segment reporting

The Bank is the one reportable segment, which is administered centrally. The Bank does not have customers, revenues from which exceed 10% of total revenues.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

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

3. Basis of preparation and summary of accounting policies (continued)

Future changes in accounting policies (continued)

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

3. Basis of preparation and summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank as the Bank does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Bank's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

3. Basis of preparation and summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank, since the Bank is an existing IFRS preparer.

3. Basis of preparation and summary of accounting policies (continued)

Future changes in accounting policies (continued)

Annual improvements 2012-2014 Cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures - applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(thousands of Ukrainian hryvnia unless otherwise indicated)

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 2014 the Bank recognized an allowance for impairment losses of loans to customers in the amount of UAH 44,200 thousand. (2013: UAH 269,125 thousand) (Note 8). As at 31 December 2014 the Bank did not recognize the allowance for impairment in respect of certain loans secured by irrevocable guarantee issued by the parent bank or the companies under its control, as management intends to call on such guarantee in full amount in case of default of the secured loans and inability to negotiate their restructuring. Gross carrying value of loans secured by the guarantee issued by the parent bank or the companies under parent bank's control comprised UAH 8,224,381 thousand as at 31 December 2014.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Deposit certificates issued by the NBU for up to 90 days	1,300,784	–
Correspondent account with the NBU	765,424	784,469
Current accounts with other credit institutions	646,517	699,471
Cash on hand	18,557	10,434
Time deposits with the other credit institutions up to 90 days	–	50,000
Cash and cash equivalents	**2,731,282**	**1,544,374**

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

As at 31 December 2014, UAH 583,436 thousand placed on current accounts with seven OECD banks (2013: UAH 596,752 thousand with eight OECD banks) is included in current accounts with other credit institutions. The placements have been made under normal banking terms and conditions.

6. Trading securities

As at 31 December 2014, trading securities are represented by Ukrainian government bonds with a carrying value of UAH 9,361 thousand (2013: UAH 273,571 thousand).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2014	*2013*
Obligatory reserves with the NBU	–	1,056,980
Loans and deposits due from banks	6,583	4,130
Gross amounts due from credit institutions	**6,583**	**1,061,110**
Less – allowance for impairment	(6,583)	(211)
Amounts due from credit institutions	**–**	**1,060,899**

In accordance with the requirement of the National Bank of Ukraine the Bank is obliged to keep the balance of the obligatory reserve, which is calculated as a percentage of certain liabilities of the Bank for the previous month.

(thousands of Ukrainian hryvnia unless otherwise indicated)

7. Amounts due from credit institutions (continued)

As at 31 December 2014, Ukrainian banks are obliged to keep the required amount of obligatory reserves, which has to be maintained daily at the beginning of the trading day on the correspondent account with the National Bank of Ukraine, at a rate of not less than 40% of the reserve base calculated for the relevant maintenance period (2013: 40% of obligatory reserve under 1.95% per annum). As at 31 December 2014, the amount of obligatory reserve kept on a correspondent account with the NBU comprised UAH 405,130 thousand and was included in cash and cash equivalents (Note 5) (2013: UAH 154,741 thousand on a separate account within amounts due from credit institutions).

In 2014 the NBU canceled the requirements which had been effective as at 31 December 2013 and according to which Ukrainian banks had to deposit 20% of amounts attracted from non-residents in foreign currencies for a period of less than 183 days and an amount equivalent to the impairment allowance (determined under the regulatory requirements) created for loans granted in foreign currencies to borrowers with no foreign currency income on a separate account with the NBU in form of a non-interest bearing cash deposit. As at 31 December 2013, the funds placed by the Bank on the separate account with the NBU amounted to UAH 902,239 thousand.

The Bank complied with the NBU's requirements for the obligatory reserve as at 31 December 2014 and 2013.

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

	2014	*2013*
1 January	**211**	**221**
Charge/(release)	6,372	(10)
31 December	**6,583**	**211**

8. Loans to customers

Loans to customers comprise:

	2014	*2013*
Commercial	9,340,640	6,613,516
Overdrafts	250,925	145,855
Retail	70,628	72,007
Gross loans to customers	**9,662,193**	**6,831,378**
Less – allowance for impairment	(44,200)	(269,125)
Loans to customers	**9,617,993**	**6,562,253**

Allowance for impairment of loans to customers

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

	Commercial	*Overdrafts*	*Retail*	*Total*
At 1 January 2014	**253,203**	**220**	**15,702**	**269,125**
Charge for the year	116,154	3,893	18,225	**138,272**
Sale of loans	(310,341)	–	–	**(310,341)**
Release of allowance recognized within additional paid-in capital	(40,146)	–	–	**(40,146)**
Recovery of loans previously written off	2,740	–	–	**2,740**
Write-off	–	–	(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**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**4,348,523**	–	**14,752**	**4,365,835**

(thousands of Ukrainian hryvnia unless otherwise indicated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

During the year 2014 the Bank received guarantees from the parent bank and the companies under parent bank's control (hereinafter – the ING Group) to compensate for losses incurred on loans to some borrowers. The Bank recognized a decrease in provision for impairment of loans secured by such guarantees within additional paid-in capital in the amount of UAH 40,146 thousand.

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 the statement of comprehensive income as a net gain on sale of loans to customers.

	Commercial	*Overdrafts*	*Retail*	*Total*
At 1 January 2013	**287,232**	**123**	**17,318**	**304,673**
Charge/(release) for the year	210,695	97	(1,616)	**209,176**
Write-off	(187,587)	–	–	**(187,587)**
Sale of loans	(57,137)	–	–	**(57,137)**
At 31 December 2013	**253,203**	**220**	**15,702**	**269,125**
Individual impairment	247,534	–	7,391	**254,925**
Collective impairment	5,669	220	8,311	**14,200**
	253,203	**220**	**15,702**	**269,125**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,215,850**	**–**	**11,710**	**1,227,560**

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.

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.

Concentration of loans to customers

As at 31 December 2014, the Bank had a concentration of loans represented by UAH 6,098,874 thousand due from the ten largest third party borrowers (63% of gross loan portfolio) (2013: UAH 3,550,916 thousand or 52%). The allowance for impairment recognised against these loans amounted to UAH 6,986 thousand as at 31 December 2014 (2013: UAH 218,733 thousand).

As at 31 December 2014, the total carrying value of loans secured by guarantees received from ING Group was UAH 8,224,381 thousand or 86% of gross carrying value of loans (2013: 4,767,177 or 73%).

(thousands of Ukrainian hryvnia unless otherwise indicated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

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

	2014	*2013*
Trade	2,352,667	2,230,753
Energy	1,515,685	740,009
Machinery	1,148,465	661,322
Chemical	1,147,268	440,850
Services	1,134,434	562,669
Agriculture, food and beverages	1,069,651	1,206,406
Metallurgy	423,693	210,137
Paper industry	378,765	240,175
Communications	241,156	136,356
Tobacco	153,096	125,815
Retail	15,956	72,007
Construction material production	–	68,289
Other	81,357	136,590
	9,662,193	**6,831,378**

9. Investment securities available-for-sale

As at 31 December 2014, available-for-sale securities are represented by shares with carrying value of UAH 62 thousand (2013: shares of UAH 62 thousand).

10. Taxation

The corporate income tax expense comprises:

	2014	*2013*
Current tax charge	55,348	13,548
Deferred tax charge	35,922	25,032
Income tax expense	**91,270**	**38,580**

As at 31 December 2014 current income tax asset equals to UAH 207,269 thousand (2013: UAH 233,577 thousand). According to the provisions of Tax Code of Ukraine, effective 1 January 2013, the Bank, as other large tax payers in Ukraine, was obliged to prepay income tax based on the taxable profit for the previous year, which is significantly higher than taxable profit for the current year, which allowed to decrease partially current income tax asset.

In December 2014 the Parliament of Ukraine introduced a number of amendments to the Tax Code of Ukraine. The amendments became effective since 1 January 2015 and significantly alter some aspects of computation of the Bank's taxable profit thereafter. Bank calculated deferred tax assets and liabilities as at 31 December 2014 considering these amendments. In accordance with regulations and amendments introduced to the Tax Code as at 31 December 2014, the basic rate of income tax is 18%.

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:

	2014	*2013*
Profit before income tax expense	501,992	223,676
Statutory tax rate	18%	19%
Income tax expense at the statutory rate	**90,359**	**42,498**
Non-deductible expenditures	172	552
Reassessment of temporary differences	–	(909)
Effect of lower tax rate (10%) for transactions with securities	(520)	(3,847)
Adjustment of tax for previous year	46	–
Effect of change in tax rates	1,213	286
Income tax expense	**91,270**	**38,580**

(thousands of Ukrainian hryvnia unless otherwise indicated)

10. Taxation (continued)

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2012	*in profit or loss*	*in other compre-hensive income*	*2013*	*in profit or loss*	*within equity*	*2014*
Tax effect of deductible and taxable temporary differences							
Cash and cash equivalents	(50)	50	–	–			
Amounts due from credit institutions	(3,089)	2,318	–	(771)	773	–	2
Securities owned	(3,157)	1,641	–	(1,516)	751	–	(765)
Loans to customers	28,868	(29,585)	–	(717)	(37,433)	(7,227)	(45,377)
Property and equipment	895	(369)	–	526	(241)	–	285
Intangible assets	66	(14)	–	52	(10)	–	42
Other assets	(1,899)	1,978	–	79	45	–	124
Other liabilities	3,677	(1,051)	–	2,626	193	–	2,819
Deferred tax asset/(liability)	**25,311**	**(25,032)**	**–**	**279**	**(35,922)**	**(7,277)**	**(42,870)**

11. Other impairment allowances and provisions

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

	Other assets	*Guarantees and letters of credit issued*	*Total*
31 December 2012	**482**	**–**	**482**
Release	(78)	–	(78)
31 December 2013	**404**	**–**	**404**
Charge	22	5,627	**5,649**
31 December 2014	**426**	**5,627**	**6,053**

The allowance for impairment of assets is deducted from the carrying amounts of the related assets. The provision for guarantees and letters of credit issued is recognized within other liabilities.

12. Other assets and liabilities

Other assets comprise:

	2014	*2013*
Accrued income	2,451	2,653
Prepaid expenses	3,367	4,073
Other prepayments	283	293
Other	50	81
	5,961	**7,100**
Less – allowance for impairment of other assets (Note 11)	(426)	(404)
Other assets	**5,535**	**6,696**

(thousands of Ukrainian hryvnia unless otherwise indicated)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	2014	*2013*
Accrued expenses	33,835	14,664
Payables for services	29,313	13,684
Accrued commission expenses for guarantees received	24,496	12,188
Provision for credit related commitments (Note 11)	5,627	–
Taxes payable other than income tax	1,728	1,732
Transit accounts in respect of transactions with clients	514	398
Currency conversion operations	42	45
Other	36	153
Other liabilities	**95,591**	**42,864**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2014	*2013*
Short term loans and deposits	6,642,400	3,950,310
	537,804	194,112
Long term loans and deposits	**7,180,204**	**4,144,422**
Amounts due to credit institutions	**6,642,400**	**3,950,310**

As at 31 December 2014, loans and deposits due to credit institutions include funds received from ING Group banks in amount of UAH 7,179,366 thousand or 99% of amounts due to credit institutions (2013: UAH 4,136,442 thousand or 99%).

14. Amounts due to customers

The amounts due to customers include the following:

	2014	*2013*
Current accounts		
- Legal entities	3,029,367	2,035,834
- Individuals	12,163	10,384
	3,041,530	**2,046,218**
Time deposits from legal entities	129,766	1,800,015
Amounts due to customers	**3,171,296**	**3,846,233**
Held as security against guarantees	**2,777**	**4,730**

As at 31 December 2014, current accounts of legal entities amounting to UAH 1,517,187 thousand (50% of legal entities current accounts) were due to the ten largest third party customers (2013: UAH 1,299,011 thousand or 64%).

As at 31 December 2014, term deposits from legal entities of UAH 129,765 thousand or 100% of term deposits from legal entities were due to the seven third party customers (2013: UAH 1,790,580 thousand or 99.5% due to ten third party customers).

(thousands of Ukrainian hryvnia unless otherwise indicated)

14. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	2014	*2013*
Trade	996,825	678,524
Agriculture and food processing	992,619	435,104
Services	524,297	194,641
Chemical	244,724	187,873
Financial services	108,518	88,829
Metallurgy	83,361	14,344
Manufacturing	72,649	113,963
Transport and communications	71,049	28,989
Individuals	13,171	10,384
Mining	4,446	2,005,341
Real estate constructions	3,415	1,984
Machine building	98	7,439
Energy	40	34
Other	56,084	78,784
Amounts due to customers	**3,171,296**	**3,846,233**

15. Equity and earnings per share

As at 31 December 2014 and 2013, 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 2014 and 2013, all issued shares were fully paid and registered.

The share capital of the Bank was contributed in Ukrainian hryvnia and the shareholder is entitled to dividends and any capital distributions in Ukrainian hryvnia.

The balances of share capital were as follows:

	Number of shares	*Nominal amount, UAH thousand*	*Restated cost, UAH thousand*
31 December 2014 and 2013	73,129,804,500	731,298	751,579

Basic and diluted eamings per one share comprise:

	2014	*2013*
Profit for the year, UAH thousand	410,725	185,096
The average number of ordinary shares outstanding (pcs.)	73,129,804,500	73,129,804,500
Net basic and diluted eamings per share (UAH per share)	0.0056	0.0025

During 2014 and 2013 the Bank had no financial instruments that could cause dilution or loss or earnings per share due to their conversion into shares.

During 2014 and 2013 there were no changes in the number of ordinary shares of the Bank.

As at 31 December 2014 retained eamings include undistributable reserve of UAH 913,287 thousand (2013: UAH 394,955 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.

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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

16. Commitments and contingencies (continued)

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.

Commitments and contingencies

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

	2014	*2013*
Credit related commitments		
Letters of credit	519,149	269,436
Guarantees	244,210	203,166
Undrawn loan commitments	4,871,447	125,557
	5,634,806	**598,159**
Less – provision for credit related commitments (Notes 11, 12)	(5,627)	–
Less – cash held as security against guarantees	(2,777)	(4,730)
Commitments and contingencies	**5,626,402**	**593,429**

17. Net fee and commission expense

Net fee and commission expense comprises:

	2014	*2013*
Documentary operations	16,833	13,484
Settlement operations	11,223	9,515
Credit service	3,235	2,019
Operations with securities	2,076	9,904
Fee and commission income	**33,367**	**34,922**
Fee and commission expense for guarantees obtained from ING Group	(226,038)	(178,973)
Settlement operations	(3,256)	(2,588)
Operations with securities	(124)	(979)
Other	(62)	(72)
Fee and commission expense	**(229,480)**	**(182,612)**
Net fee and commission expense	**(196,113)**	**(147,690)**

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).

(thousands of Ukrainian hryvnia unless otherwise indicated)

18. Other income

	2014	2013
Consulting	10,128	2,866
Penalties received	1,849	1,167
Sub-leasing	148	339
Insurance agent services	6	309
Gain on disposal of property, equipment and intangible assets	–	36
Other	296	113
Total other income	**12,427**	**4,830**

19. Personnel and other administrative and operating expenses

Personnel and other operating expenses comprise:

	2014	2013
Salaries and bonuses	91,735	68,805
Social security costs	11,081	11,656
Personnel expenses	**102,816**	**80,461**
Software expenses, fixed assets maintenance and repairs	47,075	34,628
Occupancy and rent	16,715	12,122
Operational and maintenance	8,281	6,291
Consulting	6,315	4,883
EDP cost	3,659	2,323
Business trips	2,193	2,067
Penalties paid	2,073	1,691
Communications	1,444	1,410
Security	477	448
Loss on sale of financial assets	–	883
Marketing and advertising	–	32
Operating taxes	–	4
Other	975	406
Other operating expenses	**89,207**	**67,188**

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.

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 the Division of operational risks and information security control and Credit and market risks administration ("CMRA", 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.

20. Risk management (continued)

Introduction (continued)

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 the Risk Management Department. 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 ("FMTA") 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.

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.

20. Risk management (continued)

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 always 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.

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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

20. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

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

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments their behalf. Such payments are collected from customers under the terms of the letters of credit. These arrangements expose the Bank to similar risks to loans and these are mitigated by similar control procedures and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting 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.

		Neither past due nor individually impaired				
31 December 2014	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due or individually impaired***	***Total***
Cash equivalents	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	4,717,347	–	4,348,523	**9,340,640**
Overdrafts		–	250,925	–	–	**250,925**
Retail		44,885	–	8,431	17,312	**70,628**
Total		**3,032,377**	**4,968,275**	**8,431**	**4,372,418**	**12,381,501**

		Neither past due nor individually impaired				
31 December 2013	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due or individually impaired***	***Total***
Cash equivalents	5	1,483,940	50,000	–	–	**1,533,940**
Amounts due from credit institutions	7	1,056,980	–	4,130	–	**1,061,110**
Loans to customers	8					
Commercial		735,896	4,661,770	–	1,215,850	**6,613,516**
Overdrafts		3	145,852	–	–	**145,855**
Retail		60,297	–	–	11,710	**72,007**
		796,196	4,807,622	–	1,227,560	**6,831,378**
Total		**3,337,116**	**4,857,622**	**4,130**	**1,227,560**	**9,426,428**

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)

20. Risk management (continued)

Credit risk (continued)

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

	2014				
	Less than 30 days 2014	*31 to 60 days 2014*	*61 to 90 days 2014*	*More than 90 days 2014*	*Total 2014*
Corporate customers	–	–	–	–	–
Retail	670	–	–	1,890	**2,560**
Total	**670**	**–**	**–**	**1,890**	**2,560**

	2013				
	Less than 30 days 2013	*31 to 60 days 2013*	*61 to 90 days 2013*	*More than 90 days 2013*	*Total 2013*
Corporate customers	–	–	–	–	–
Retail	984	–	1,005	925	**2,914**
Total	**984**	**–**	**1,005**	**925**	**2,914**

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 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. Local 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)

20. Risk management (continued)

Geographical concentration

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

	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**
Amounts due from credit institutions	–	–	–	**–**
Derivative financial assets	–	–	–	**–**
Loans to customers	9,617,993	–	–	**9,617,993**
Other assets	1,933	3	–	**1,936**
	11,714,700	**583,439**	**62,495**	**12,360,634**
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 liabilities	8,012	53,805	462	**62,279**
	3,123,327	**7,285,222**	**5,230**	**10,419,779**
Net position	**8,591,373**	**(6,701,783)**	**57,265**	**1,946,855**

	2013			
	Ukraine	*OECD*	*CIS and other non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	845,742	596,572	102,060	**1,544,374**
Trading securities	273,571	–	–	**273,571**
Investment securities available-for-sale	62	–	–	**62**
Amounts due from credit institutions	1,060,899	–	–	**1,060,899**
Derivative financial assets	92	–	–	**92**
Loans to customers	6,562,253	–	–	**6,562,253**
Other assets	2,546	–	12	**2,558**
	8,745,165	**596,572**	**102,072**	**9,443,809**
Liabilities				
Amounts due to credit institutions	–	4,026,516	117,906	**4,144,422**
Amounts due to customers	3,816,457	24,992	4,784	**3,846,233**
Derivative financial liabilities	256	6,373	–	**6,629**
Other liabilities	14,917	12,423	1,851	**29,191**
	3,831,630	**4,070,304**	**124,541**	**8,026,475**
Net position	**4,913,535**	**(3,473,732)**	**(22,469)**	**1,417,334**

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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

20. Risk management (continued)

Liquidity risk and funding management (continued)

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 CMRA 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.

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:

	2014, %	*2013, %*
N4 "Instant Liquidity Ratio" (cash on hand and balances on nostro accounts with banks / liabilities payable on demand) (minimum required by the NBU – 20%)	57.01	72.43
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities payable within 31 days) (minimum required by the NBU – 40%)	170.95	101.60
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%	106.71	104.90

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	*Within one month*	*From 1 to 3 months*	*3 months to one year*	*1 to 5 years*	*Over 5 years*	*Total*
As at 31 December 2014						
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 liabilities	62,279	–	–	–	–	**62,279**
Total undiscounted financial liabilities	**6,420,572**	**3,349,011**	**127,498**	**534,726**	**–**	**10,431,807**

(thousands of Ukrainian hryvnia unless otherwise indicated)

20. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities	*Within one month*	*From 1 to 3 months*	*3 months to one year*	*1 to 5 years*	*Over 5 years*	*Total*
As at 31 December 2013						
Amounts due to credit institutions	3,951,495	854	150,014	30,708	26,969	**4,160,040**
Amounts due to customers	2,207,245	35,212	1,606,365	–	–	**3,848,822**
Derivative financial instruments						
- Contractual amounts payable	85,674	412,686	–	–	–	**498,360**
- Contractual amounts receivable	(83,744)	(407,987)	–	–	–	**(491,731)**
Other liabilities	29,191	–	–	–	–	**29,191**
Total undiscounted financial liabilities	**6,189,861**	**40,765**	**1,756,379**	**30,708**	**26,969**	**8,044,682**

The Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank based on information on deposit repayment in previous periods.

The table below shows the contractual expiry by maturity 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*
2014	5,634,806	–	–	–	**5,634,806**
2013	598,159	–	–	–	**598,159**

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.

Included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 15).

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 CMRA 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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

20. Risk management (continued)

Liquidity risk and funding management (continued)

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.

		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	+2	7,414	-2	(7,414)
EUR	LIBOR	+2	(1,933)	-2	1,933
Total			**5,481**		**(5,481)**

		2013			
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	+3	(50,676)	-3	50,676
EUR	LIBOR	+3	(7,097)	-3	7,097
Total			**(57,773)**		**57,773**

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 Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating exchange rate risk. 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.

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 CMRA. 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.

	2014		2013	
Currency	*Change in currency exchange rate*	*Effect on profit before tax*	*Change in currency exchange rate*	*Effect on profit before tax*
USD	50.00%	(60,600)	30.00%	(35,772)
EUR	50.00%	1,304	30.00%	(14,343)
Total		**(59,296)**		**(50,115)**
USD	10.00%	(12,120)	-5.00%	5,961
EUR	10.00%	261	-5.00%	2,391
Total		**(11,859)**		**8,352**

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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

21. Fair value measurement

The Bank uses the following hierarchic methods of measurement to determine and disclose the fair values of financial instruments:

- 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 in the financial statements at fair value by hierarchic levels of fair value sources as at 31 December 2014 and 2013:

31 December 2014	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Trading securities	–	9,361	–	**9,361**
Investment securities available-for-sale	–	62	–	**62**
Assets for which fair values are disclosed				
Cash and cash equivalents	2,731,282	–	–	**2,731,282**
Amounts due from credit institutions	–	–	–	**–**
Loans to customers	–	–	9,603,384	**9,603,384**
Other financial assets	–	–	1,936	**1,936**
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	–	–	62,279	**62,279**

31 December 2013	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Trading securities	–	273,571	–	**273,571**
Investment securities available-for-sale	–	62	–	**62**
Derivative financial assets	–	92	–	**92**
Assets for which fair values are disclosed				
Cash and cash equivalents	1,544,374	–	–	**1,544,374**
Amounts due from credit institutions	–	1,060,899	–	**1,060,899**
Loans to customers	–	–	6,562,253	**6,562,253**
Other financial assets	–	–	2,558	**2,558**
Liabilities measured at fair value				
Derivative financial liabilities	–	6,629	–	**6,629**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	4,144,422	–	**4,144,422**
Amounts due to customers	–	–	3,846,233	**3,846,233**
Other financial liabilities	–	–	29,191	**29,191**

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 that are not 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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

21. Fair value measurement (continued)

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.

22. 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.

	2014			*2013*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	2,731,282	–	**2,731,282**	1,544,374	–	**1,544,374**
Trading securities	9,361	–	**9,361**	273,571	–	**273,571**
Amounts due from credit institutions	–	–	**–**	1,056,980	3,919	**1,060,899**
Derivative financial assets	–	–	**–**	92	–	**92**
Loans to customers	7,556,102	2,061,891	**9,617,993**	6,213,770	348,483	**6,562,253**
Investment securities available-for-sale	62	–	**62**	62	–	**62**
Property and equipment	–	9,363	**9,363**	–	5,327	**5,327**
Intangible assets	–	1,094	**1,094**	–	1,378	**1,378**
Corporate current tax asset	207,269	–	**207,269**	233,577	–	**233,577**
Deferred tax assets	–	–	**–**	–	279	**279**
Other assets	5,535	–	**5,535**	6,696	–	**6,696**
Total assets	**10,509,611**	**2,072,348**	**12,581,959**	**9,329,122**	**359,386**	**9,688,508**
Liabilities						
Amounts due to credit institutions	6,656,478	523,726	**7,180,204**	4,096,650	47,772	**4,144,422**
Amounts due to customers	3,171,296	–	**3,171,296**	3,846,233	–	**3,846,233**
Derivative financial liabilities	–	–	**–**	6,629	–	**6,629**
Deferred income tax liabilities	–	42,866	**42,866**	–	–	**–**
Other liabilities	95,591	–	**95,591**	42,864	–	**42,864**
Total liabilities	**9,923,365**	**566,592**	**10,489,957**	**7,992,376**	**47,772**	**8,040,148**
Net	**586,246**	**1,505,756**	**2,092,002**	**1,336,746**	**311,614**	**1,648,360**

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.

23. Related party transactions

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

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

(thousands of Ukrainian hryvnia unless otherwise indicated)

23. Related party transactions (continued)

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

	2014			*2013*		
	Parent company	*Key management personnel*	*Entities under common control*	*Parent company*	*Key management personnel*	*Entities under common control*
Loans outstanding at 1 January, gross	**–**	**5,956**	**–**	**–**	**11,156**	**–**
Loan repayments during the year	–	(1,289)	–	–	(5,109)	–
Other movements	–	1,659	–	–	(45)	–
Loans outstanding at 31 December, gross	–	6,326	–	–	6,002	–
Less: allowance for impairment at 31 December	–	(164)	–	–	(46)	–
Loans outstanding at 31 December, net	**–**	**6,162**	**–**	**–**	**5,956**	**–**
Long term deposits at 1 January	**5,561**	**–**	**188,552**	**100,117**	**–**	**595,490**
Long term deposits received during the year	150,341	–	511,465	–	–	–
Long term deposits repaid during the year	(12,962)	–	(304,792)	(94,556)	–	(409,046)
Other movements	–	–	–	–	–	2,108
Long term deposits at 31 December	**142,940**	**–**	**395,225**	**5,561**	**–**	**188,552**
Short term deposits at 31 December	769,325	–	5,714,680	15,837	–	3,808,429
Guarantees received	8,465,674	–	8,043,043	7,714,877	–	21,562

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

	For the year ended 31 December					
	2014			*2013*		
	Parent company	*Key management personnel*	*Entities under common control*	*Parent company*	*Key management personnel*	*Entities under common control*
Interest income	20	474	–	66	552	0
Allowance for loan impairment	–	(118)	–	–	40	–
Interest expense	(993)	–	(33 763)	(309)	–	(20,502)
Fee and commission income	32	19	20	1,594	28	167
Other income	–	–	79	–	–	429
Fee and commission expenses	(226,291)	–	(227)	(178,973)	(2)	(252)
Other operating expenses	–	–	–	–	–	–

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 paid to the key management personnel for 2014 is UAH 24,532 thousand (2013: UAH 10,721 thousand).

(thousands of Ukrainian hryvnia unless otherwise indicated)

24. 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 and Basel Capital Accord 1988.

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.

During 2014, the Bank complied in full with all externally imposed capital requirements.

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

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 2014 and 2013 the Bank complied with the NBU requirements concerning capital adequacy ratio.

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2014 and 2013, the Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 amended to include market risk was as follows:

	2014	*2013*
Tier 1 capital	2,092,002	1,648,360
Total capital	**2,092,002**	**1,648,360**
Risk weighted assets	**10,633,186**	**7,686,128**
Tier 1 capital ratio	19.67%	21.45%
Total capital ratio	**19.67%**	**21.45%**

Acting Chairman of the Board — Olena Mykhalchenko

Chief Accountant — Oksana Chizhevskaya

22 April 2015