AVANGARD BANK

PUBLIC JOINT-STOCK COMPANY «BANK AVANGARD»

PUBLIC JOINT–STOCK COMPANY
"BANK AVANGARD"
Financial Statements
for the year ended 31 December 2014

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TRANSLATED FROM UKRAINIAN ORIGINAL

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of PJSC 'BANK AVANGARD'

We have audited accompanying financial statements of PJSC 'BANK AVANGARD' (the Bank hereinafter), which comprise the statement of financial position as at 31 December 2014, and the 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 information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 of its financial performance and its cash flows for the then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without changing our opinion, we draw your attention to Note 2 to the financial statement, which describes the current political crisis in Ukraine. The impact of the ongoing crisis and political instability in Ukraine, and their final settlement, which may adversely affect the economy of Ukraine and the Bank's activity, is not possible to predict with reasonable certainty.

Partner

Gagik Nersesyan

01 April 2015

Kyiv, Ukraine

Registration #15-049.1

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014	2013
Interest and similar income	6	49 086	4 369
Interest and similar expense	6	(13 739)	(10)
Net interest income		**35 347**	**4 359**
Fee and commission income	7	1 120	11
Fee and commission expense	7	(132)	(4)
Net fee and commission income		**988**	**7**
Income on financial investments – available–for–sale		1 434	246
Net trading income	8	40 038	14
Credit loss expense/income	9	(41 661)	(354)
Securities loss expense		–	–
Other financial assets loss expense/income		–	–
Other impairment loss		–	–
Other operating income		–	–
Administrative and other operating expenses	10	(18 009)	(4 051)
Operating profit		**18 137**	**221**
Negative goodwill on acquisition		–	–
Profit from sale of investments in subsidiaries acquired with an exclusive view for subsequent sale		–	–
Share of profit/(loss) of associate		–	–
PROFIT BEFORE TAX		**18 137**	**221**
Income tax credit/(expense)	11	(3 037)	(33)
PROFIT FOR THE YEAR		**15 100**	**188**
Other comprehensive income			
Revaluation of financial investments – available–for–sale		1 515	(72)
Revaluation of property and equipment		–	–
Income tax effect		(261)	7
Currency translation differences		–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1 254**	**(65)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**16 354**	**123**

Chairman of the Board Korchynska S.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014	2013
ASSETS			
Cash and balances with central banks	12	46 646	102 093
Mandatory reserve with the NBU		–	1 173
Due from banks	13	340 227	116 597
Loans and advances to customers		–	–
Financial investments – available–for–sale	14	50 350	150 878
Investment in associate		–	–
Investment property		–	–
Property and equipment	15	1 142	1 315
Intangible assets	16	2 480	1 293
Deferred tax assets		271	22
Other financial assets		1	1
Other assets		256	146
Assets held for sale		–	–
Total assets		**441 373**	**373 518**
LIABILITIES AND EQUITY			
Due to banks	19	98 405	–
Due to customers	20	192 272	251 234
Current tax liabilities		3 197	48
Deferred tax liabilities	10	261	–
Other financial liabilities	21	6 854	
Other liabilities	22	1 907	113
Total liabilities		**302 896**	**251 395**
Share capital	23	122 000	122 000
Revaluation reserve	24	1 189	(65)
Currency translation reserve		–	–
Retained earnings		15 288	188
Total equity		**138 477**	**122 123**
Total liabilities and equity		**441 373**	**373 518**

Chairman of the Board Korchynska S.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Issued capital	*Revaluation reserve*	*Currency translation reserve*	*Retained earnings*	*Total*
At 1 January 2013	–	–	–	–	–
Equity emission	122 000	–	–		122 000
Profit for the year	–	–	–	188	188
Other comprehensive income		(65)	–		(65)
At 31 December 2013/ 1 January 2014	**122 000**	**(65)**	**–**	**188**	**122 123**
Profit for the year	–	–	–	15 100	15 100
Other comprehensive income	–	1 254	–	–	1 254
Acquisition of subsidiary	–	–	–	–	–
At 31 December 2014	**122 000**	**1 189**	**–**	**15 288**	**138 477**

Chairman of the Board Korchynska S.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014	2013
Operating activities			
Profit before tax		**18 137**	**221**
Adjustments for:			
Amortisation and impairment		609	139
Changes in reserves for impairment		41 661	354
Accrued income		(783)	(1 656)
Accrued expenses		681	120
Trading income		(4 990)	–
Share of the profit or loss of associates		–	–
Other operating income		–	–
Net cash flows from operating activities before changes in operating assets and liabilities		**55 315**	**(822)**
Changes in operating assets and liabilities			
Changes in due from banks		(252 994)	(116 000)
Changes in deposits with the NBU		1 173	(1 173)
Changes in financial investments – available–for–sale		101 383	(150 249)
Changes in loans and advances to customers		–	–
Changes in other financial assets		–	–
Changes in other assets		(29)	(146)
Changes in due to banks		98 250	–
Changes in due to customers		(59 402)	251 227
Changes in other financial liabilities		–	–
Net cash flows from operating activities before income tax		**(56 304)**	**(17 163)**
Income tax paid		(246)	–
Net cash flows from operating activities		**(56 550)**	**(17 163)**
Investing activities			
Investment in associate		–	–
Acquisition of subsidiary, net of cash acquired		–	–
Purchase of property and equipment		(1 080)	(2 744)
Net cash flows from/(used in) investing activities		**(1 080)**	**(2 744)**
Equity emission		–	122 000
Net cash flows form/(used in) investing activities		**–**	**122 000**
Net increase in cash and cash equivalents		**(57 630)**	**102 093**
Net foreign exchange difference		14 317	–
Cash and cash equivalents at 1 January		102 093	–
Cash and cash equivalents at 31 December		**58 780**	**102 093**

Chairman of the Board Korchynska S.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1 General information for the Bank

Country of incorporation

BANK AVANAGARD (the Bank) was incorporated in Ukraine on 5 July 2013 as a Public Joint Stock Company. Its registered office is at Sholudenko st. 3, Kyiv, 04116, Ukraine.

Principal activities

The main areas of the Bank is trading securities, transactions in the interbank market, FOREX, asset management.

2. BASIS OF PREPARATION

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

The financial statements have also been prepared under the historical cost convention, as modified by the revaluation of available–for–sale financial assets, property and equipment and investment properties.

The financial statements are presented in thousands of Ukrainian hryvnia ("UAH"), unless otherwise indicated.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates (Note 4).

Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (non–current) is presented in Note 24.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General information

The principal accounting policies adopted in the preparation of these financial statements are listed below. These policies have been applied consistently to all years presented in these financial statements, unless otherwise stated.

Financial assets

Classification:

The Bank classifies its financial assets in the categories as prescribed by IAS 39 "Financial Instruments: Recognition and Measurement", as described below:

- **Financial assets at fair value through profit or loss**

This category has two sub–categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Bank's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Bank's key management personnel. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months from the reporting date.

- **Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the reporting date. These are' classified as non–current assets.

- **Held–to–maturity investments**

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, that do not meet the definition of loans and receivables.

- **Available–for–sale financial assets**

Available–for–sale financial assets are non–derivative that are either designated in this category or not classified in any of the other categories. They are included in non–current assets, unless management intends to dispose of the investment within twelve months of the reporting date.

Key measurement terms

Financial instruments are measured at amortised cost or fair value, depending on their classification. These methods of measurement are described below.

Fair value – is the amount on which an asset can be exchanged, or a liability settled during the implementation of the agreement on general conditions between knowledgeable unrelated parties acting on a voluntary basis. Fair value is the current bid price for financial assets and financial liabilities for the bid listed on the active market. Concerning the assets and liabilities of the market risks that are mutually offset, the Bank may use mid–market prices to determine the fair value of risk positions that are mutually offset, and the net open position to bid or the bid. A financial instrument is considered so that is quoted in an active market, if the quotes for this financial instrument are readily and regularly available on the stock exchange or other institution and those prices represent actual and regularly occurring market transactions on general terms.

To determine the fair value of certain financial instruments for which there is no information about market prices from external sources, the valuation techniques are used such as discounted cash flow, valuation models that are based on data about the latest agreement made between unrelated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

parties, or analysis of financial information on investment objects. The use of valuation techniques may require assumptions not supported by observable market data. The information in the financial statements is disclosed in cases when changing of any such assumptions by possible alternative may result in significantly different profit, income, total assets or total liabilities.

Transaction costs – are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

Incremental costs – are the costs which are not incurred if the operation is not carried out. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers; fees paid by securities regulators and rulings, as well as taxes and fees levied by the re–registration of property rights. Transaction costs do not include premiums or discounts on debt obligations, the cost of financing, the internal administrative costs or storage costs.

Amortised cost – is the cost of a financial instrument on initial recognition minus principal repayments, plus accrued interest, and for financial assets less any write–down for incurred impairment losses. Accrued interest includes amortisation at initial recognition agreement and any premium or discount from the amount of maturity using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon profit and amortised discount or premium (including commissions, which are transferred to the next periods at initial recognition, if any), are not shown separately and included in the carrying amount of the related items of the statement of the financial position.

The effective interest rate method – is a method of distributing the interest income or interest expense over the relevant period, in order to obtain a constant interest rate (effective interest rate) of the carrying amount of the instrument. The effective interest rate is the interest rate, for which the future cash payments or receipts (excluding future losses on loans) are accurately discounted during the expected term of the financial instrument or, in appropriate cases, for a shorter period to the net carrying amount of the financial instrument. The effective interest rate is used for discounting cash flows on instruments with floating interest rate until the next interest rate change date except for the premium or discount which reflects the credit spread over the floating rate specified for the instrument, or other variables that do not change depending on market rates. Such premiums or discounts are amortised over the expected life of the instrument.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade–date which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available–for–sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held–to–maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

inputs and relying as little as possible on entity specific inputs. Equity investments for which fair values cannot be measured reliably are recognised at cost less impairment.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available–for–sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non–monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non–monetary securities classified as available–for–sale are recognised in other comprehensive income.

When securities classified as available–for–sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss as gains and losses on available–for–sale financial assets.

Interest on available–for–sale securities calculated using the effective interest method is recognised in the profit or loss. Dividends on available–for–sale equity instruments are recognised in profit or loss when the Bank's right to receive payments is established.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indi cator that the securities are impaired. If any such evidence exists for available–for–sale financial as sets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

The fair value of securities that are in circulation on the legal markets is determined by their market value. If the quotation of market prices of securities is not available, then the Bank uses such methods to determine the fair value:

- reference to the market price of other similar instrument;
- analysis of discounted cash flows. Using discounted cash flow analysis, the Bank uses a discount rate equal to the rate of return of similar financial investments that has basically the same conditions and characteristics (maturity structure; the remaining cash flows; currency; credit rating of the issuer, the interest rate);
- other methods that provide a reliable measurement of securities fair value.

Shares and other non–fixed income securities held for sale, where the fair value cannot be reliably determined are shown on the balance sheet date, taking into account their cost taking into account the reduction of the usefulness.

Held to maturity investment held by the Bank, are shown on the balance sheet date at amortised cost using the effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The objective evidence of securities impairment may be the following:

- the issuer's financial difficulties;
- the actual termination of the contract due to failure to comply with terms of the contract or late payments of interest or principal;
- high probability of bankruptcy;
- the issuer's reorganization;
- the disappearance of an active market for these securities due to the issuer's financial difficulties;
- a significant or prolonged decrease in the fair value of shares and other securities with non–fixed profit compared with their cost.

Derecognition of financial assets

The Bank shall derecognises financial assets when (a) the assets are redeemed or the rights to receive cash flows from the assets otherwise have lost their validity, or (b) the bank transfers the rights to receive cash flows from the financial asset or has entered into an agreement on the transfer, and thus passed mostly all the risks and rewards of ownership of the assets, or the Bank has not transferred and not left basically all the risks and rewards of ownership but ceased to exercise control. Control is retained if the counterparty does not have the practical ability to sell the asset to an unrelated third party without needing additional restrictions on resale.

Cash and cash equivalents

Cash equivalents are held in order to meet short–term cash commitments rather than for investment or other purposes.

To qualify an investment as the equivalent of cash, it should be freely converted to a known monetary amount and have an insignificant risk of changes in value. Cash and cash equivalents consist of balances with an original maturity of three months or less, such as balances on correspondent accounts and overnight deposits placed with other banks, cash in hand and in transit and cash accounts at the National Bank of Ukraine, with the exception of the mandatory reserves.

Mandatory cash balances with the NBU reserves are carried at amortised cost and represent mandatory reserve deposits, which cannot be used to finance the Bank's day to day operations and, accordingly, are not considered components of cash and cash equivalents for the purposes of the cash flow statement.

Promissory notes

The acquired promissory notes are included to the debt from other banks or loans and advances to customers, depending on their nature, and are remeasured in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

Due from other banks and loans to customers

As for amounts due from other banks and loans to customers, which are carried at amortised cost, the Bank must first determine whether there is objective evidence of impairment of financial assets, each of which individually is essential, as well as the comprehensive signs of financial assets impairment, each of which individually is not essential. In the case the objective signs of impairment of a financial asset separately (substantial or unsubstantial) are missing, the asset is included in a group of financial assets with similar credit risk characteristics. The group of financial assets is collectively estimated for impairment. Assets that are evaluated individually and for which impairment loss continues to be recognized, is not included in a collective evaluation of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

If there is objective evidence of loss resulting from financial assets impairment, the amount of loss is determined as the difference between the carrying amount of assets and the current value of the expected future cash flows, except for the future expected loan losses, which have not yet been incurred. The carrying amount of the asset is reduced by the amount of the reserve. The amount is determined in the statement of financial results. Interest income accrual continues to the smaller carrying value at the original effective interest rate of the asset. If next year the amount of the impairment loss increases or decreases because of an event that took place after the recognition of the impairment loss, the previously recognised impairment loss is increased or decreased by adjusting provision for impairment losses. Loans and relevant provisions are written off when there are no real prospects for the future return of the asset and all collateral has been realised or transmitted to the Bank. The further recovery of the asset that was written off, are credited to the account of the impairment loss in the income statement.

The present value of estimated future cash flows is discounted at the original effective interest rate of the financial asset. If a loan has a variable interest rate, the discount rate for the assessment of any impairment loss is the current effective interest rate.

Calculation of the present value of expected future cash flows of the collateralised financial asset reflects the cash flows that may result from foreclosure on collateral from foreclosure less costs for obtaining and selling the collateral, regardless of the possibility of foreclosure on collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the Banks' internal loan grading system, which takes into account the credit risk characteristics, such as the asset type, branch, category, time delay and other relevant factors.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are determined on the basis of past experience losses for assets with credit risk characteristics, which are similar to the risk inherent to the group. Past experience of loss is adjusted based on the current information available to show the effects of current conditions that did not affect past periods, based on past experience of losses and exposure to environments that do not currently exist. Estimates of changes in future cash flows reflect and directly related to changes in the relevant information each year (for example, changes in unemployment, real estate prices, commodity prices, payment status, and other factors that indicate the losses incurred in the group's assets and their size). The methodology and assumptions used to estimate the future cash flows are revised regularly to reduce any differences between loss estimates and actual losses incurred.

Pledged property that passed to the Bank

Pledged property that passed to the Bank – are the financial and non–financial assets received by the Bank at the settlement of non–performing loans. These assets are initially determined at fair value and are included in the buildings and equipment, and other financial assets or inventory items in the stocks of other assets depending on their nature, as well as the intentions of the Bank concerning reimbursement of the value of these assets, and are remeasured in accordance with the accounting policies for these categories of assets.

Loans with reviewed terms

In all possible cases, the Bank tries to restructure loans and not to take possession of the collateral for which the maturity terms are prolonged and the new terms on the loan are agreed. As soon as the conditions for granting a loan are reviewed, the loan is no longer considered to be expired. The management constantly reviewed loans for more confidence in the fact that all the criteria are met and the future repayment is likely to happen. Loans are subject to an individual or a collective evaluation of impairment.

Premises, leasehold improvements and equipment

After initial recognition at cost, buildings are recorded under the revaluation, which consists of the fair value at the date of revaluation less subsequent accumulated depreciation and subsequent

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

accumulated impairment losses.

The cost of premises is revalued with sufficient regularity to ensure that there is a lack of a significant difference between their carrying amount and the amount determined based on the fair value.

The cost to repair and maintenance expenses are recognised as expenses when incurred. The cost of the replacement of major components of fixed assets is capitalised with the following write–off of a replaced component.

At the end of each accounting period the impairment analyses of premises, leasehold improvements and equipment is carried out. If any such indications exist, the value is calculated, equal to the fair value of an asset less costs to sell, or value in use, depending on which of these amounts is greater. The carrying amount of the asset is reduced to the value of the refund, and an impairment loss is recognized in profit or loss for the year. Impairment loss is reflected on any assets in periods reversed, if there was a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Disposal profit or losses are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year (as part of other operating income or expenses).

Depreciation

Depreciation of items of premises, leasehold improvements and equipment is calculated on the straight line method in order to evenly reduce the initial cost to the liquidation value over the term of their operation according to the following standards:

Useful lives (years)	
Premises	– 50
Furniture and office equipment	– 5–8
Vehicles	– 5
Computers and equipment	– 3–5
Improvement of leased premises	– over the term of the lease

The residual value of an asset – is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the condition and useful life matched the condition and useful life of the asset expected at the end of its useful life. The residual value of assets and the useful lives are reviewed and, if necessary, adjusted at each balance sheet date.

Intangible assets

Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software and licenses are capitalised on the basis of the costs incurred for the purchase and commissioning of the software.

Operating lease

In cases when the Bank is a lessee in a lease under which all the risks and benefits inherent in the asset are not passed by the lessor to the Bank, the total amount of lease payments is included in the profit or loss in equal parts over the term of the lease.

Lease, embedded in other contracts, is separated, if (a) the implementation of the contract is associated with a specific asset or assets and (b) the agreement provides for the transfer of the right to use the asset.

If the assets are operational lease, lease payments, subject to obtaining the lease income are recognised as equal parts over the term of the lease.

Investment property

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Property (land or a building, or part of a building, or a combination of them) which the Bank owns as the owner or lessee under a financial lease agreement to obtain lease payments or increase the cost of capital, or to achieve both goals, and not for: use in the production or supply of goods, provision of services or for administrative purposes or sale in the ordinary course of activity.

During the initial recognition of investment property the Bank evaluates and displays it at cost, which includes the price of acquisition of the real estate and all the costs that are directly related to its acquisition.

Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities as at fair value with reflection of revaluation as profit or loss and other financial liabilities. At the initial recognition financial liabilities are measured at fair value less costs directly related to the implementation of the operations, if the liabilities are not classified as financial liabilities at fair value, changes of which relate to the financial result. At the initial recognition of the financial liabilities the Bank assigns them to the appropriate category.

Classification of the financial liabilities

Loan funds

Issued financial instruments or their components are classified as liabilities if the under the contractual arrangements the Bank has an obligation to transfer funds or other financial assets or liabilities to contractors in a different way than the exchange of a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. Such instruments include amounts due to the NBU, due to other banks, funds, subordinated debt and other loan funds. After initial recognition loan funds are measured at amortised cost using the effective interest rate. Gains and losses related to these liabilities are recognised in the income statement at termination of recognition; borrowing costs are recognized in the process of depreciation.

Trade and other payables

Payables from the main activity are defined, if the counterparty has performed its obligations under the agreement and are carried at amortised cost.

Share capital

Ordinary shares are shown in equity. Costs directly attributable of new shares are shown in equity as a deduction, net of taxes. The excess of fair value of amounts added to the capital over the nominal value of shares issued is recorded in equity as surplus.

Foreign currency translation

(i) Functional and presentation currency

The functional and presentation currency for the Bank is the Ukrainian Hryvna (UAH), rounded to the nearest thousands.

The functional currency of the Company's subsidiaries incorporated in Ukraine is the Ukrainian Hryvnia (UAH).

(ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions or valuation where items are re–measured.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Recognition of income and expenses

Interest and similar income and expense

Interest income and expense on all debt instruments appear in the profit or loss for the year, according to the method of calculation, using the effective interest method. This method includes the interest income and expenses and distributes throughout the period of all commissions paid or received by parties and which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Commission income

Fees, commissions and other income and expenses, including fees for the provision of guarantees, as a rule, are recorded under the accrual basis depending on the degree of completeness of specific operations, which is defined as the share of actually provided services in the total scope of services to be provided. Fee for loan obligations or from borrowed funds, which are likely to be used, is deferred (together with the corresponding direct costs) and is presented as an adjustment to the effective interest rate on the loan or loan funds.

Fees and commissions as a result of negotiations or participation in the negotiations on carrying out a transaction for a third party (for example, purchase credits, shares or other securities or the purchase or sale of companies) are presented after the transaction completion.

Current tax – is the amount expected to be paid or recovered from the taxation authorities as for taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Other taxes, except on income, are recorded within administrative and other operating expenses.

Deferred income tax is calculated using the balance sheet liability method, deferred tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. According to the initial recognition exemption, deferred tax is not recognised for temporary differences arising on initial recognition of an asset or liability in a transaction which is not a combination of companies and that affects neither accounting nor taxable profit. Assets and liabilities of deferred tax are determined using tax rates enacted or substantially enacted or actually have been enacted at the balance sheet date and are expected to be applied in the period when the temporary differences will be reversed or tax losses carried forward will be enrolled.

Deferred tax assets on temporary differences that reduce taxable base and carried forward tax losses are presented only to the extent that there is a chance of getting profits, against which the temporary differences can be implemented.

Pension liabilities and other payments to employees

The Bank pays single social charge and contributions to the funds of social insurance to the state budget as for its employees. The amounts of contributions are related to expenses incurred. The Bank does not have any additional obligations of pension payments.

Comparatives

Where necessary, comparative figures have been adjusted to confirm with changes in presentation in the current year.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually revised and are based on management's experience and other factors, including expectations of future events that are considered to be reasonable for the circumstances. In addition to the judgments that provide estimates, the management also uses assumptions in applying the accounting policies. Assumptions that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and receivables

The Bank regularly reviews its loan portfolios to assess impairment. When determining whether an impairment loss should be in profit or loss for the year, the Bank makes assumptions as to whether there is any observable data that indicate a decrease in estimated future cash flows from the loan portfolio, which can be measured as a reduction can be matched with a particular asset in the portfolio. Such evidence may include observable data indicating an adverse change in the solvency of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to the portfolio when estimating future cash flows. The methodology and assumptions used to estimate how the timing and amounts of future cash flows are revised regularly to reduce any differences between loss estimates and actual loss experience.

Related party transactions

In the normal course of business the Bank enters into transactions with related parties. IAS 39 requires sales financial instruments at initial recognition at fair value. In the absence of an active market for such operations, in order to determine whether such transactions were carried out at market rates or non–market rates professional assumption is used. The basis for the assumption is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Recognition of deferred income tax asset

Recognized a deferred tax asset is the amount of income tax, which can be credited against the future income taxes, and shown in the statement of financial position. Deferred income tax assets are recognised only to the extent that it is probable to use the corresponding tax credit. As expected, the Bank will receive a stable income in the future.

Key assumptions include the expected stabilization of the economy, a gradual reduction in interest rates (loans and deposits), a moderate growth of the credit portfolio, and reduction of provisions for impairment in connection with the expected improvement in the economy and further strengthening of the cost control. Taking into account planned future profits and that the current Ukrainian legislation does not set restrictions on the use of tax losses the management believes it appropriate to consideration the recognition of deferred tax asset.

Income taxes

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. OPERATING SEGMENTS

Description of products and services from which the Bank derives its revenue is organized on the basis of one main business segment:

Treasury banking – representing securities trading, money market and foreign currency operations.

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments for the year ended 31 December 2014:

	Treasury banking	***Other***	***Total***
Revenue			
Interest income (Note 6)	49 086	–	49 086
Fee and commission income (Note 7)	880	240	1 120
Other income	41 472	–	41 472
Total revenue	**91 438**	**240**	**91 678**
Interest expense (Note 6)	(13 739)	–	(13 739)
Fee and commission expense (Note 7)	(4)	(128)	(132)
Allowance for loan impairment (Note 9)	(41 661)	–	(41 661)
Personnel expenses (Note 10)	(8 371)	–	(8 371)
Depreciation and amortization (Note 10)	(609)	–	(609)
Other impairment and provisions	–	–	–
Other segment expenses (Note 10)	(9 029)	–	(9 029)
Segment results	**18 025**	**112**	**18 137**
Income tax expense (Note 11)	(3 037)	–	(3 037)
Profit for the year	**14 988**	**112**	**15 100**
Segment assets	**418 632**	**22 741**	**441 373**
Segment liabilities	**300 989**	**1 907**	**302 896**

5. OPERATING SEGMENTS (*continued*)

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments for the year ended 31 December 2013:

	Treasury banking	*Other*	*Total*
Revenue			
Interest income	4 369	–	**4 369**
Fee and commission income	4	7	**11**
Other income	260	–	**260**
Total revenue	**4 633**	**7**	**4 640**
Interest expense	(10)	–	**(10)**
Fee and commission expense	(1)	(3)	**(4)**
Allowance for loan impairment	(354)	–	**(354)**
Personnel expenses	(1 810)	–	**(1 810)**
Depreciation and amortization	(136)	–	**(136)**
Other impairment and provisions	–	–	**–**
Other segment expenses	(2 105)	–	**(2 105)**
Segment results	**217**	**4**	**221**
Income tax expense	(33)	–	**(33)**
Profit for the year	**184**	**4**	**188**
Segment assets	**356 896**	**16 622**	**373 518**
Segment liabilities	**251 282**	**113**	**251 395**

The Bank's revenues are analysed by products and services in Note 6 (Interest income and expense), Note 7 (Fee and commission income and expense), Note 8 (Net trading income).

6. INTEREST INCOME AND EXPENSE

	2014	*2013*
Interest income		
Loans and advances to customers	15	–
Debt securities available–for–sale	28 635	942
Due from other banks	20 436	3 427
Total interest income	**49 086**	**4 369**
Interest expense		
Funds received from the NBU under agreements to REPO	–	–
Placements of other banks	(11 171)	–
Term deposits of individuals	(76)	–
Term deposits of legal entities	(877)	(8)
Current accounts	(1 615)	(2)
Total interest expense	**(13 739)**	**(10)**
Net interest income	**35 347**	**4 359**

7. FEE AND COMMISSION INCOME AND EXPENSE

	2014	*2013*
Fee and commission income		
Cash and settlement transactions **(1)**	1 120	11
Transactions with securities	–	–
Others	–	–
Guarantees issued	–	–
Total fee and commission income	**1 120**	**11**
Fee and commission expense		
Cash and settlement transactions **(1)**	(128)	(3)
Transactions with securities	(4)	(1)
Others	–	–
Guarantees issued	–	–
Total fee and commission expense	**(132)**	**(4)**
Net fee and commission income	**988**	**7**

(1) The fee and commission income from cash and settlement transactions arises from such transactions with clients, credit service, transactions in the foreign exchange market and precious metals market for clients. The fee and commission expense on cash and settlement transactions arises from similar transactions with clients.

8. NET TRADING INCOME

	2014	*2013*
Derivates income	25 403	–
Foreign exchange	14 635	14
Total	**40 038**	**14**

9. CREDIT LOSS EXPENSE/INCOME

	2014	*2013*
Provision for losses on interest generating assets	(41 661)	(354)
Total	**(41 661)**	**(354)**

10. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2014	*2013*
Staff costs	(8 371)	(1 810)
Services **(1)**	(135)	(10)
Depreciation of premises, leasehold improvements and equipment (Note 15)	(396)	(136)
Amortization of intangible assets (Note 16)	(213)	–
Operating lease expenses	(431)	(346)
Communication	(1 019)	(199)
Maintenance of premises and equipment	(671)	(190)
Taxes other than on income	(6 466)	(1 220)
Professional services	(242)	(124)
Advertising and marketing services	(6)	–
Others	(59)	(16)
	(18 009)	**(4 051)**

(1) Services include expenses for legal, audit, consulting services.

11. INCOME TAX

The components of income tax expenses for the years ended 31 December is presented below:

	2014	***2013***
Current tax	(3 293)	(48)
Deferred tax	256	15
Income tax expense/(credit) for the year	**3 037**	**(33)**

Reconciliation between the expected and the actual taxation charge is provided below:

	2014	***2013***
Profit before tax	18 137	221
Theoretical tax expense/(credit) at statutory rate 18 % (2013 – 19%)	(3 265)	(42)
Tax effect of items which are not deductible or assessable for taxation purpose:		
Non–deductible expenses	(102)	(28)
Effect of change in tax rate	15	22
Unrecognised tax loses transferred for further periods	59	–
Income tax expense/(credit) for the year	**(3 293)**	**(48)**

11. INCOME TAX (continued)

Deferred taxes analysed by type of temporary differences

As at 31 December 2014 and 31 December 2013 deferred tax assets and liabilities and their change for relevant periods include:

	31 December 2013	***Acquisition of subsidiary***	***Credited / (charged) to profit or loss for the year***	***Credited / (charged) directly to equity***	***31 December 2014***
Tax effect of deductible/(taxable) temporary differences					
Premises and equipment	–	–	38	–	38
Loan impairment provision	–	–	–	–	–
Fair value of securities	7	–	–	(268)	(261)
Accrued expenses and other liabilities	15	–	218	–	233
Accrued income and other assets	–	–	–	–	–
Recognized deferred tax asset	22		256	(7)	271
Recognized deferred tax liability	–	–	–	(261)	(261)
Net deferred tax asset/(liability)	**22**	**–**	**256**	**(268)**	**10**

As at 31 December 2013 and 31 December 2012 deferred tax assets and liabilities and their change for relevant periods include:

	31 December 2012	***Credited / (charged) to profit or loss for the year***	***Credited / (charged) directly to equity***	***31 December 2013***
Tax effect of deductible/(taxable) temporary differences				
Fair value of securities	–	–	7	7
Accrued expenses and other liabilities	–	15	–	15
Recognized deferred tax asset	**–**	**15**	**7**	**22**
Recognized deferred tax liability	–	–	–	–
Net deferred tax asset/(liability)	**–**	**15**	**7**	**22**

12. CASH AND BALANCES WITH CENTRAL BANKS AND MANDATORY RESERVES WITH THE NBU

(a) Cash and balances with central banks: Cash and cash equivalents

	2014	*2013*
Cash in hand	–	–
Cash balances with the NBU (other than mandatory reserve deposits)	22 559	15 302
Correspondent accounts and overnight placements with other banks **(1)**	24 087	86 791
Other cash at bank	–	–
Total cash and cash equivalents	**46 646**	**102 093**

(1) The "correspondent accounts and overnight placements with other banks", held at other banks as at 31 December 2014 are analysed as follows:

	2014	*2013*
Ukraine	94	86 791
Other countries	23 993	–
	24 087	**86 791**

	2014	*2013*
Interest bearing	–	–
Non–interest bearing	24 087	86 791
	24 087	**86 791**

Mandatory reserves with the NBU

During 2014 the Bank was in compliance with the mandatory reserve requirements.

As the respective liquid assets are not available to finance the Bank's day–to–day operations, for the purposes of the statement of cash flows the mandatory reserve balance kept on a separate account with the NBU is excluded from cash and cash equivalents.

Interest rate analysis of cash and cash equivalents is disclosed in Note 25.

12. CASH AND CASH EQUIVALENTS (*continued*)

The credit quality of cash and cash equivalents may be summarized based on internal ratings as follows at 31 December 2014:

	Cash balances with the NBU, excluding mandatory reserves	***Correspondent accounts with other banks***	***Total***
Neither past due nor impaired:			
National Bank of Ukraine	22 559	–	22 559
Group I rated* (OECD banks)	–	23 993	23 993
Group II rated* (Top 20 Ukrainian banks)	–	80	80
Group III rated* (other banks)	–	14	14
Total cash and cash equivalents	**22 559**	**24 087**	**46 646**

The credit quality of cash and cash equivalents may be summarized based on internal ratings as follows at 31 December 2013:

	Cash balances with the NBU, excluding mandatory reserves	***Correspondent accounts with other banks***	***Total***
Neither past due nor impaired:			
National Bank of Ukraine	15 302	–	15 302
Group I rated* (OECD banks)	–	–	–
Group II rated* (Top 20 Ukrainian banks)	–	84 201	84 201
Group III rated* (other banks)	–	2 590	2 590
Total cash and cash equivalents	**15 302**	**86 791**	**102 093**

*:

Group I rated – Banks of the Organisation for Economic Co–operation and Development (OECD)

Group II rated – Top 20 Ukrainian banks in accordance with the NBU ratings.

Group III rated – Other banks

12. CASH AND CASH EQUIVALENTS (*continued*)

Cash and cash equivalents for Statement of Cash Flows purposes:

	2014	***2013***
Cash in hand	–	–
Cash balances with the NBU (other than mandatory reserve deposits)	22 559	15 302
Correspondent accounts and overnight placements with other banks **(1)**	36 221	86 791
Other cash at bank	–	–
Total cash and cash equivalents	**58 780**	**102 093**

13. DUE FROM OTHER BANKS

	2014	*2013*
Short–term placements with other banks	382 242	116 951
Guarantee deposits with other banks	–	–
Gross loans	**382 242**	**116 951**
Less: Provision for loan impairment	(42 015)	(354)
Net loans: due from other banks	**340 227**	**116 597**

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

	Short–term placements with other banks	*Guarantee deposits with other banks*	*Total*
Neither past due nor impaired			
Group I rated (OECD banks)	–	–	–
Group II rated (Top 20 Ukrainian banks)	187 417	–	187 417
Group III rated (other banks)	194 825	–	194 825
Total due form other banks	**382 242**	**–**	**382 242**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2013 is as follows:

	Short–term placements with other banks	*Guarantee deposits with other banks*	*Total*
Neither past due nor impaired			
Group I rated (OECD banks)	–	–	–
Group II rated (Top 20 Ukrainian banks)	–	–	–
Group III rated (other banks)	116 951	–	116 951
Total due form other banks	**116 951**	**–**	**116 951**

Refer to Note 28 for the estimated fair value of each class of amounts due from other banks.

Interest rate analysis of due from other banks is disclosed in Note 25.

14. FINANCIAL INVESTMENTS–AVAILABLE–FOR–SALE

	2014	*2013*
Ukrainian government bonds	50 350	150 878
Corporate bonds	–	–
Total debt securities	**50 350**	**150 878**
Corporate shares	–	–
Total financial investments–available–for–sale	**50 350**	**150 878**

The analysis by credit quality of debt securities available–for–sale as at 31 December 2014 is as follows:

	Government bonds and deposit certificates	*Total*
Neither past due nor impaired:	50 350	50 350
Total debt securities available–for–sale less impairment provision	**50 350**	**50 350**

The analysis by credit quality of debt securities available–for–sale as at 31 December 2013 is as follows:

	Government bonds and deposit certificates	*Total*
Neither past due nor impaired:	150 878	150 878
Total debt securities available–for–sale less impairment provision	**150 878**	**150 878**

The interest rate analysis of investment securities available for sale is disclosed in Note 26.

During the year ended 31 December 2014 there was interest income of UAH 28 635 thousands, which is included in the income statement. There was no dividend income.

As at 31 December 2014 Bank pledged the Ukrainian government bonds in amount USD 55 931 thousands (Note 28(e)).

15. PROPERTY, PLANT AND EQUIPMENT

	Premises and other	*Computers and equipment*	*Vehicles*	*Furniture and fixtures*	*Construction in progress*	*Total*
Cost or valuation						
1 January 2014	**637**	**546**	**–**	**241**	**27**	**1 451**
Acquisition of a subsidiary (Note 5)	–	–	–	–	–	–
Revaluation surplus	–	–	–	–	–	–
Additions (Note 4)	3	188	–	32	–	223
Other group transferring	–	27	–	–	(27)	–
31 December 2014	**640**	**761**	**–**	**273**	**–**	**1 674**
Accumulated depreciation						
1 January 2014	**(136)**	**–**	**–**	**–**	**–**	**(136)**
Acquisition of a subsidiary (Note 5)	–	–	–	–	–	–
Depreciation charge (Note 14)	(191)	(141)	–	(64)	–	(396)
Disposals	–		––		–	–
31 December 2014	**(327)**	**(141)**		**(64)**	**–**	**(532)**
Net book value:						
1 January 2014	**501**	**546**	**–**	**241**	**27**	**1 315**
31 December 2014	**313**	**620**	**–**	**209**	**–**	**1 142**

15. PROPERTY, PLANT AND EQUIPMENT (*continued*)

Depreciation expenses of UAH 396 thousands has been changed to the 'Administrative and other operating expenses' (2013:UAH 136 thousands).

As at 31 December 2014 the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 138 thousands.

16. INTANGIBLE ASSETS

	Computer software licenses	*Other*	*Construction in progress*	*Total*
Cost				
1 January 2014	**1 031**	**–**	**262**	**1 293**
Acquisition of a subsidiary (Note 5)	–			–
Additions	1 381	5	14	1 400
Other group transferring	257	5	(262)	–
31 December 2014	**2 669**	**10**	**14**	**2 693**
Accumulated depreciation				
1 January 2014	**–**	**–**	**–**	**–**
Acquisition of a subsidiary (Note 5)	–	–	–	–
Amortisation charge (Note 14)	(213)	–	–	(213)
Other group transferring	–	–	–	–
31 December 2014	**(213)**	**–**	**–**	**(213)**
Net book value:				
1 January 2014	**1 031**	**–**	**262**	**1 293**
31 December 2014	**2 456**	**10**	**14**	**2 480**

Depreciation expenses of UAH 213 thousands has been changed to the 'Administrative and other operating expenses' (2013:UAH 0 thousands).

17. OTHER FINANCIAL ASSETS

	2014	*2013*
Receivable from operations with securities	–	**–**
Receivables from operations with plastic cards	–	–
Receivable from operations with foreign currency	–	–
Accrued income receivable	1	1
Other financial assets	–	–
	1	**1**
Less: Provision for impairment	–	–
Total other financial assets less provision for impairment	**1**	**1**

Information on related party balances is disclosed in Note 31.

The analysis by credit quality of other financial assets for the year 2014 is as follows:

	Receivable from operations with securities	*Receivables from operations with plastic cards*	*Receivable from operations with foreign currency*	*Accrued income receivable*	*Other financial assets*	*Total*
Neither past due nor impaired:						
Collected or settled after the end of the reporting period	–	–	–	1	–	**1**
Total neither past due nor impaired	–	**–**	**–**	**1**	–	**1**
Receivables individually determined to be impaired:						
not yet past due	–	–	–	–	–	–
over 360 days overdue	–	–	–	–	–	–
Total individually impaired	–	–	–	**–**	–	–

17. OTHER FINANCIAL ASSETS (*continued*)

	Receivable from operations with securities	*Receivables from operations with plastic cards*	*Receivable from operations with foreign currency*	*Accrued income receivable*	*Other financial assets*	*Total*
Less: impairment provision	–	–	–	**–**	–	–
Total other financial assets	–	**–**	**–**	**1**	–	**1**

18. OTHER ASSETS

	2014	*2013*
Prepayments for services	75	104
Prepayments for goods and construction in progress	–	40
Other assets	31	2
Tax prepayment	150	–
Less: provision for impairment	–	–
Total other assets	**256**	**146**

19. DUE TO OTHER BANKS

	2014	*2013*
Correspondent accounts and overnight placements of other banks **(1)**	2 004	–
Term placements and loans from other banks (short–term)	96 401	–
Term placements and loans from other banks (long–term)	–	–
Total due to other banks	**98 405**	**–**

(1) The "correspondent accounts and overnight placements of other banks" as at 31 December 2014 and 2013 are analysed as follows:

	2014	*2013*
Ukraine	2 004	–
Other countries	–	–
	2 004	**–**

For the disclosure of the fair value of each class of amounts due to other banks refer to Note 29. Interest rate analysis of the due to other banks is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

All amounts due to other banks are fixed–interest deposits.

20. CUSTOMER ACCOUNTS

	2014	*2013*
Government and public organizations:		
current/settlement accounts	–	–
term deposits	–	–
Legal entities:		
current/settlement accounts	184 829	250 229
term deposits	2 151	1 005
Individuals:		
current/settlement accounts	1 219	–
term deposits	4 073	–
Total customer accounts	**192 272**	**251 234**

The economic sector allocation within customer accounts are as follows:

	2014		*2013*	
	Amount	*%*	*Amount*	*%*
Individuals	5 292	3%	–	–
Services	126 306	66%	250 229	99.6%
IT technology	21 011	11%	1 005	0.4%
Trade	18 431	10%	–	–
Manufacturing	4 783	3%	–	–
Real estate	–	–	–	–
Publishing	–	–	–	–
Construction	–	–	–	–
Agriculture	–	–	–	–
Other	16 449	7%	–	–
Total customer accounts	**192 272**	**100%**	**251 234**	**100%**

As at 31 December 2014 the Bank had 12 customers with balances above UAH 2 000 thousand. The aggregate balance of these customers was UAH 188 802 thousand, or 98% of total customer accounts.

Refer to Note 28 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

21. OTHER FINANCIAL LIABILITIES

	2014	*2013*
Payables for operations with clients **(1)**	2 358	–
Other accrued liabilities	76	–
Payables for operations with foreign currency **(2)**	4 420	–
Total other financial liabilities	**6 854**	**–**

(1) Payables for operations with clients include payables on payments received and payables on transactions of bank clients.

(2) Payables for operations with foreign currency include payables on purchase and sale of foreign currencies and precious metals by the bank.

Refer to Note 29 for disclosure of the fair value of each class of other financial liabilities.

22. OTHER LIABILITIES

	2014	*2013*
Accrued employee benefit costs	1 297	86
Accrued liabilities	593	27
Payables to Guarantee Fund of Individuals' Deposits **(1)**	14	–
Taxes payable other than on income	3	–
Other	–	–
Total other liabilities	**1 907**	**113**

(1) The Bank is a member of the Deposits Guarantee Fund (a Fund participant registration certificate No.222, date of certificate issue 05.07.2013), acting in accordance with the Law No.2740–III "On the Deposit Guarantee Fund". The Deposit Guarantee Fund provides the return of deposits to depositors of up to UAH 200 thousand per person, in the event of liquidation of the bank.

23. SHARE CAPITAL

	2014 *Number of shares*	*2014* *UAH*	*2013* *Number of shares*	*2013* *UAH*
Authorised:				
Ordinary shares of UAH 1000 each	122 000	122 000	122 000	122 000
Issued and fully paid:				
Balance at 1 January	122 000	122 000	–	–
Balance at 31 December	122 000	122 000	122 000	122 000

Authorised capital

Under its Chapter the Bank fixed its share capital at incorporation at 122.000 ordinary shares of nominal value of UAH 1000 each.

24. REVALUATION RESERVES

	Unrealized gains/(losses) on available for sale investment securities	*Property revaluation reserve*	*Total*
At 1 January 2013	**–**	**–**	**–**
Net unrealized gains on available for sale investments	(72)	–	(72)
Tax effect of revaluation of property and net gains on investment securities available for sale	7	–	7
At 31 December 2013	**(65)**	**–**	**(65)**
Acquisition of subsidiary			
Net unrealized gains on available for sale investments	1 450	–	1 450
Tax effect of revaluation of property and net gains on investment securities available for sale	(261)	–	(261)
At 31 December 2014	**1 189**	**–**	**1 189**

Nature and purpose of revaluation reserves.

Unrealized gains/(losses) on available for sale investment securities

This reserve records changes in fair value of available for sale investments

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	2014			*2013*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
ASSETS						
Cash and cash equivalents	46 646	–	**46 646**	102 093	–	**102 093**
Mandatory reserves with the NBU	–	–	**–**	1 173	–	**1 173**
Due form other banks	340 227	–	**340 227**	116 597	–	**116 597**
Loans and advances to customers	–	–	**–**	–	–	**–**
Financial investments available–for–sale	50 350	–	**50 350**	150 878	–	**150 878**
Investments in associate	–	–	**–**	–	–	**–**
Investment properties	–	–	**–**	–	–	**–**
Deferred tax asset	–	271	**271**	–	22	**22**
Property and equipment	–	1 142	**1 142**	–	1 315	**1 315**
Intangible assets	–	2 480	**2 480**	–	1 293	**1 293**
Other financial assets	1	–	**1**	1	–	**1**
Other assets	217	39	**256**	107	39	**146**
Non–current assets held for sale	–	–	–	–	–	–
Total assets	**437 441**	**3 932**	**441 373**	**370 849**	**2 669**	**373 518**
LIABILITIES						
Due to other banks	98 405	–	**98 405**	–	–	**–**
Customer accounts	192 272	–	**192 272**	251 234	–	**251 234**
Current income tax liability	3 197	–	**3 197**	48	–	**48**
Deferred tax liabilities	–	261	**261**	–	–	–
Other financial liabilities	6 854	–	**6 854**	–	–	**–**
Other liabilities	1 907	–	**1 907**	113	–	**113**
Total liabilities	**302 635**	**261**	**302 896**	**251 395**	**–**	**251 395**

26. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Bank's involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identity all key risks for the Bank, measure these risks, manage risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

Risk is inherent in banking activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and the Bank's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance.

The Management Board is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies responsible for managing and monitoring risks. They include financial–analytical management and risk management. Decision making for minimizing risks is the responsibility of the Credit Committee, Asset and Liability Management Committee of the Bank.

The Management Board of the Bank is responsible for the overall approach to risk management, approval of strategy and principles of risk management, as well as for monitoring the levels of risks, and it also monitors decision making in respect of risks.

The Supervisory Board has the responsibility to monitor the overall risk process within the Bank.

Credit Committee, Asset and Liability Management Committee are responsible for construction of risk management strategy and implementing of risk foundations, conceptions, policy and limits.

The Department of Risk Management is responsible for implementing and carrying out procedures related to risk management in order to ensure an independent monitoring process.

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. Each business group has its own unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

The risks arising from financial investments to which the Bank is exposed are financial risks, which include credit risks, market risk (includes currency risk, interest rate risk, and price risk) and liquidity risk, as discussed below.

26.1 Credit risk

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

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

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

26. FINANCIAL RISK MANAGEMENT (continued)

product and industry sector are approved regularly by management and relevant committees (at least at semi–annual base). Such risks are monitored on a revolving basis and subject to a regular review.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating credit worthiness are reported to and reviewed by the Credit committee.

The report on the analysis of the loan portfolio of the Bank and also the detailed analysis of the level of the credit risk for the credit portfolio as a whole and by line of lending business is presented to management bodies of the Bank on a monthly basis.

The Bank monitors adhering of credit risk's limits on a daily basis in accordance with the requirement of the National Bank of Ukraine.

These credit risk's limits are: limit of maximum credit risk on a counterparty (N7), limit of large credit risks (N8), limit of maximum size of loans, guarantees and commitments provided to one insider (N9), limit of maximum size of loans, guarantees and commitments provided to all insiders (N10). Moreover, the Bank performs modeling of limits, sensitive analysis by currency fluctuations etc.

Credit risk's limits rations presented in table below:

Credit risk limit ratio	***Regulatory rate***	***2014***
N7 (maximum credit risk on a counterparty)	not more than 25 %	20.66%
N8 (large credit risks)	not more than 800 %	203.17%
N9 (maximum size of loans, guarantees and commitments provided to one insider)	not more than 5 %	–
N10 (maximum size of loans, guarantees and commitments provided to all insiders)	not more than 30 %	–

The credit quality of the Bank's cash and cash equivalents, due from other banks, financial investments–available–for–sale and other financial assets, are shown in Notes 11, 12, 13 and 16 respectively.

26.2 Market risk

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

(a) Currency risk

In respect of current risk, management sets limits on the level of exposure by currency and in total, which are monitored daily. Currency risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currency as of the reporting date. The Bank evaluates, monitors and sets limits for long and short foreign exchange open positions by currency using hryvnia as its base currency. Open position limits are set at the level established by the NBU regulations calculated as a percentage of open currency position of regulatory capital of the Bank.

26. FINANCIAL RISK MANAGEMENT (*continued*)

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the end of the reporting periods:

	At 31 December 2014				*At 31 December 2013*			
	Monetary financial assets	***Monetary financial liabilities***	***Derivatives***	***Net position***	***Monetary financial assets***	***Monetary financial liabilities***	***Derivatives***	***Net position***
US dollars	109 406	29 403	–	80 003	84 119	82 311	–	1 808
Euro	7 147	3 376	–	3 771	3	2	–	1
Russian Roubles	24	–	–	24	–	–	–	–
Total	116 577	32 779	–	83 798	84 122	82 313	–	1 809

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

	2014		*2013*	
	impact on profit or loss	***impact on equity***	***impact on profit or loss***	***impact on equity***
US dollar strengthening by 50% (2013 – strengthening by 5%)	(2 480)	(2 480)	90	90
US dollar weakening by 50% (2013– weakening by 5%)	2 480	2 480	(90)	(90)
Euro strengthening by 50% (2013 – strengthening by 5%)	(275)	(275)	0,1	0,1
Euro weakening by 50% (2013 – weakening by 5%)	275	275	(0,1)	(0,1)
Russian Roubles strengthening by 50% (2013 – strengthening by 5%)	11	11	–	–
Russian Roubles weakening by 50% (2013 – weakening by 5%)	(11)	(11)	–	–

26. FINANCIAL RISK MANAGEMENT (*continued*)

(b) Interest rate risk

The Bank takes on exposure to the effects of illustrations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The table below summarizes the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's interest bearing financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest reprising or maturity dates.

	Demand and less than 1 month	***From 1 to 6 months***	***From 6 to 12 months***	***Over 1 year***	***Total***
31 December 2014					
Total financial assets	468 016	–	–	–	468 016
Total financial liabilities	(99 280)	(4 407)	(693)	–	(104 380)
Net interest sensitivity gap as at 31 December 2014	**368 736**	**(4 407)**	**(693)**	**–**	**363 636**
31 December 2013					
Total financial assets	125 931	134 779	–	–	260 710
Total financial liabilities	(1 000)	–	–	–	(1 000)
Net interest sensitivity gap as at 31 December 2013	**124 931**	**134 779**	**–**	**–**	**259 710**

The Bank measures the sensitivity of financial instruments present values to the shifts in interest rates. Delta–1% indicates the sensitivity to the parallel shift of interest rate curves in all currencies up/down on 1 percentage point.

The table below shows Delta–1% method:

	Demand and less than 1 month	***From 1 to 6 months***	***From 6 to 12 months***	***Over 1 year***	***Total***
31 December 2014					
as a result of parallel shift down for 1 %	(3 687)	44	7	–	(3 636)
as a result of parallel shift up for 1 %	3 687	(44)	(7)	–	3 636
31 December 2013					
as a result of parallel shift down for 1 %	(1 249)	(1 348)	–	–	(2 597)
as a result of parallel shift up for 1 %	1 249	1 348	–	–	2 597

26. FINANCIAL RISK MANAGEMENT (*continued*)

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

	2014			*2013*		
% per annum	***UAH***	***USD***	***EUR***	***UAH***	***USD***	***EUR***
Assets						
Cash and cash equivalents	–	–	–	–	–	–
Due from other banks	32.5%	9.17%		14.23%	1.52%	–
Loans and advances to customers				–	–	–
Investment securities available for sale	20.72%			11.23%	–	–
Other financial assets				–	–	–
Liabilities						
Due to other banks	23.92%			–	–	–
Customer accounts:				–	–	–
current and settlement accounts	3.65%	1.02%		0.15%	0.01%	–
term deposits	0.60%	6.95%		0.60%	–	–

The sign «–» in the table above means that the Bank does not have the respective assets and liabilities in the corresponding currency.

(c) Other price risk

The Bank is subject to risk through open positions in securities and commodity risk, the latter is defined in the loss of value of the collateral and the cost of inadequacy of the Bank to purchase property, goods and services to market conditions.

Control for the price risk is provided by establishing limits on the maximum size of the portfolio of government securities.

26. FINANCIAL RISK MANAGEMENT (*continued*)

26.3 Geographical concentration

The geographical concentration of Bank assets and liabilities at 31 December 2014 is set out below:

	Ukraine	*OECD*	*Other countries*	*Total*
Assets				
Cash and cash equivalents	22 653	23 993	–	46 646
Mandatory reserves with the NBU				
Due from banks	340 227	–	–	340 227
Loans and advances to customers				
Financial investments–available–for–sale	50 350	–	–	50 350
Investments in associates				
Other financial assets	1			1
Total financial assets	**413 231**	**23 993**	**–**	**437 224**
Non–financial assets	**4 149**	**–**	**–**	**4 149**
Total assets	**417 380**	**23 993**	**–**	**441 373**
Liabilities				
Due to other banks	98 405	–	–	98 405
Customer accounts	192 272	–	–	192 272
Other financial liabilities	6 854	–	–	6 854
Total financial liabilities	**297 531**			**297 531**
Non–financial liabilities	**5 365**	**–**	**–**	**5 365**
Total liabilities	**302 896**	**–**	**–**	**302 896**
Net	**114 484**	**23 993**	**–**	**138 477**
Credit related commitments				

26.FINANCIAL RISK MANAGEMENT (*continued*)

The geographical concentration of Bank assets and liabilities at 31 December 2013 is set out below:

	Ukraine	*OECD*	*Other countries*	*Total*
Assets				
Cash and cash equivalents	102 093	–	–	102 093
Mandatory reserves with the NBU	1 173	–	–	1 173
Due from banks	116 597	–	–	116 597
Financial investments– available for sale	150 878	–	–	150 878
Investments in associates	–	–	–	–
Other financial assets	1	–	–	1
Total financial assets	**370 742**	**–**	**–**	**370 742**
Non–financial assets	**2 776**	–	–	**2 776**
Total assets	**373 518**	–	–	**373 518**
Liabilities				
Due to customers	251 234	–	–	251 234
Other financial liabilities	–	–	–	–
Total financial liabilities	**251 234**	**–**	**–**	**251 234**
Non–financial liabilities	**161**	**–**	**–**	**161**
Total liabilities	**251 395**	**–**	**–**	**251 395**
Net	**122 123**	**–**	**–**	**122 123**
Credit related commitments	**–**	**–**	**–**	**–**

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

26. FINANCIAL RISK MANAGEMENT (*continued*)

26.4 Liquidity Risk

The Bank defines liquidity risk as an existing or possible risks for earnings and capital resulting from inability to fulfil financial obligation in time without having unacceptable losses. Liquidity risk is evaluated depending on analysis of gaps between maturities of assets and liabilities in different time buckets. Control over the liquidity risk exposures is made by setting liquidity gap limits on different time horizons up to one year.

The table below analyses financial instruments by maturity as at 31 December 2014:

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Total*
ASSETS						
Cash and cash equivalents	46 646	–	–	–	–	46 646
Mandatory reserves with the NBU						
Due from other banks	340 227	–	–	–	–	340 227
Loans and advances to customers						
Financial investments–available–for–sale	49 512	620	218	–	–	50 350
Other financial assets	1	–	–	–	–	1
Total financial assets	**436 386**	**620**	**218**	**–**	**–**	**437 224**
LIABILITIES						
Due to other banks	98 405	–	–	–	–	98 405
Customer accounts	187 099	1 100	4 073	–	–	192 272
Other financial liabilities	6 854	–	–	–	–	6 854
Total financial liabilities	**292 358**	**1 100**	**4 073**	**–**	**–**	**297 531**
Liquidity gap arising from transactions with financial instruments	144 028	(480)	(3 855)	–	–	139 693
Cumulative liquidity gap from transactions with financial instruments	144 028	143 548	139 693	139 693	139 693	–

26. FINANCIAL RISK MANAGEMENT (*continued*)

The table below analyses financial instruments by maturity as at 31 December 2013:

	Demand and less than 1 month	*From 1 to 3 months*	*From 3 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Total*
ASSETS						
Cash and cash equivalents	102 093	–	–	–	–	102 093
Mandatory reserves with the NBU	1 173	–	–	–	–	1 173
Due from other banks	116 599	–	–	–	–	116 599
Financial investments–available–for–sale	145 032	5 858	–	–	–	150 890
Other financial assets	1	–	–	–	–	1
Total financial assets	**364 898**	**5 858**	**–**	**–**	**–**	**370 756**
LIABILITIES						
Due to customers	251 234	–	–	–	–	251 234
Total financial liabilities	**251 234**	**–**	**–**	**–**	**–**	**251 234**
Liquidity gap arising from transactions with financial instruments	**113 664**	**5 858**	**–**	**–**	**–**	**119 522**
Cumulative liquidity gap from transactions with financial instruments	**113 664**	**119 522**	**119 522**	**119 522**	**119 522**	**–**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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

Management believes that in spite of a substantial portion of customer account being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long–term and stable source of funding for the Bank.

27. MANAGEMENT OF CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business. The Bank manages its capital in order to:

- Comply with the capital requirements set by the regulators of the banking market where the banking entities within the Bank operate, i.e. the National Bank of Ukraine (NBU);
- Safeguard the Bank's ability to continue as a going concern by optimising its debt and equity balances, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- Maintain a strong capital base to support the development of its business.

The Bank meets the capital adequacy requirements of the local banking supervisor, National Bank of Ukraine. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the National Bank of Ukraine in supervising the Bank.

Under the current capital requirements set by the NBU, banks have to maintain a ratio of regulatory capital to risk weighted assets above a prescribed minimum value (12% as Bank is second year's activity entity).

	2014
Main capital (Tier 1) **(1)**	119 529
Additional capital (Tier 2) **(1)**	25 780
Less: deductions from capital	–
Total capital	**145 309**
Risk weighted assets **(2)**	230 598
Capital adequacy ratio	63.01%

(1) Regulatory capital comprises Tier 1 capital (Main capital), consisting of paid–in registered share capital plus reserves less expected losses, intangible assets, accumulated deficit and losses of the current period and Tier 2 capital (Additional capital), consisting of credit provisions, asset revaluation reserves, current profit, subordinated capital (in the amount not exceeding 100% of Tier 1 capital) and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

As at 31 December 2014 the Bank complied with the regulatory capital requirements.

(2) To calculate the capital adequacy of the Bank its assets are divided into five groups according to the degree of risk and summed considering the appropriate weighting ratios. These five groups are:

- assets with risk 0 percent. This category includes: cash in hand, cash balances with the NBU, financial assets held–for–trading, financial investments – available–for–sale, financial investments – held–to–maturity, due from banks;
- assets with risk 10 percent. This category includes loans and advances to customers (state);
- assets with risk 20 percent. This category includes: financial assets held–for–trading (state bonds), financial investments – available–for–sale (state bonds and corporate debt securities), Nostro and Loro accounts, interbank loans;
- assets with risk 50 percent. This category includes: due from banks, loans and advances to customers (state, individuals), financial investments – available–for–sale (corporate debt securities);
- assets with risk 100 percent. This category includes: loans and advances to customers, due from banks, financial assets held–for–trading (corporate shares, derivatives), settlements with clients, other assets and prepayments, fixed assets.

28. CONTINGENCIES AND COMMITMENTS

(a) Legal

The Bank hasn't received any claims therefore does not have contingent liabilities relating to the proceedings in court.

(b) Tax legislation

Ukraine tax and customs legislation is subject to varying interpretation and changes, which can occur frequently. Management interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

Ukraine tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it possible that transactions and activities to the transactions and activities that have not been challenged in the past may be challenged. The result may be assessed, significant additional taxes, penalties and interest may be assessed.

(c) Capital expenditure commitments

As at 31 December 2014 the Bank had capital expenditure commitments contracted in respect of software licenses totalling UAH 515 thousand (31 December 2013 – UAH 1 217 thousand).

(d) Operating lease commitments

The Bank does not have commitments under non–cancellable operating leases.

(e) Credit related commitments

As of December 31, 2014 the Bank has no liabilities associated with lending.

Assets pledged and mortgaged assets in respect of which provided limitations associated with the possession, use and disposal are as follows:

	Reporting Period		*Previous period*	
	Assets provided as a collateral	***Secured liabilities***	***Assets provided as a collateral***	***Secured liabilities***
Securities available–for–sale (Note 13)	27 458	26 289	–	–
Total	**27 458**	**26 289**	**–**	**–**

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments carried at amortized cost:

	2014		*2013*	
	Fair value	***Carrying amount***	***Fair value***	***Carrying amount***
Financial assets				
Cash and cash equivalents and mandatory reserves:	**46 646**	**46 646**	**103 266**	**103 266**
Cash on hand	–	–	–	–
Cash balances with the NBU (other than mandatory reserve deposits)	22 559	22 559	15 302	15 302
Mandatory cash balances with the NBU	–	–	1 173	1 173
Correspondent accounts and overnight placements with other banks	24 087	24 087	86 791	86 791
Due from banks:	**382 242**	**382 242**	**116 951**	**116 951**
Short–term placements with other banks	382 242	382 242	116 951	116 951
Guarantee deposits with other banks	–	–	–	–
Loans and advances to customers:	**–**	**–**	**–**	**–**
Corporate loans	–	–	–	–
Loans to individuals – mortgage loans	–	–	–	–
Loans to individuals – consumer loans	–	–	–	–
Other financial assets:	**1**	**1**	**1**	**1**
Receivables for securities	–	–	–	–
Accounts receivable from transactions with payment cards	–	–	–	–
Receivables from foreign exchange operations	–	–	–	–
Accrued income receivable	1	1	1	1
Other financial assets	–	–	–	–
Total financial assets carried at amortized cost	**428 889**	**428 889**	**220 218**	**220 218**
Financial liabilities				
Due to other banks:	**98 405**	**98 405**	**–**	**–**
Correspondent accounts and overnight placements of other banks	2 004	2 004	–	–

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (*continued*)

	2014		*2013*	
	Fair value	***Carrying amount***	***Fair value***	***Carrying amount***
Maturing and loans received from other banks (short–term)	96 401	96 401	–	–
Maturing and loans received from other banks (long–term)	–	–	–	–
Customer accounts:	**192 272**	**192 272**	**251 234**	**251 234**
Current / settlement accounts of the State and NGOs	–	–	–	–
Current / settlement accounts of legal entities	184 829	184 829	250 229	250 229
Time deposits of legal entities	2 151	2 151	1 005	1 005
Current / settlement accounts at the request of individuals	1 219	1 219	–	–
Time deposits of legal entities	4 073	4 073	–	–
Other financial liabilities:	**6 854**	**6 854**	**–**	**–**
Transit account in respect of transactions with plastic cards	–	–	–	–
Payable on transactions with client	2 358	2 358	–	–
Other accrued liabilities:	76	76	–	–
Payable for foreign currency	4 420	4 420	–	–
Payable for operations with securities	–	–	–	–
Other	–	–	–	–
Total financial liabilities carried at amortized cost	**297 531**	**297 531**	**251 234**	**251 234**

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (*continued*)

Analysis by fair value hierarchy of financial instruments carried at fair value.

	2014			
	Quoted price in an active market (Level 1)	***Valuation technique with Inputs observable in markets (Level 2)***	***Valuation technique with significant non–observable Inputs (Level 3)***	***Total***
FINANCIAL ASSETS				
Financial investments–available held–for–sale:				
Ukrainian government bonds	50 350	–	–	50 350
Deposit certificates issued by the NBU				
Corporate bonds				
Corporate shares				
Total financial assets at fair value	**50 350**	**–**	**–**	**50 350**

The methods and assumptions used in determining fair value

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is the best evidence by an active quoted market price. The fair value of derivative financial instruments for which no quoted in an active market, the Bank used valuation techniques. Certain valuation techniques require assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not in significantly different profit, income, total assets or total liabilities.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rates was estimated based on estimated expected future cash flows estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORIES

For purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement" classifies financial assets into the following categories: (a) loans and receivables, (b) available for sale financial assets, (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (FVTPL). Financial assets at fair value through profit or loss have two categories: (i) those designated as such upon initial recognition and (ii) those classified as held for trading.

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

	Loans and receivables	***Available for sale assets***	***Assets those classified as held for trading***	***Assets at fair value through profit or loss***	***Assets held to maturity***	***Total***
Assets						
Cash and cash equivalents, as well as the obligatory reserves	46 646	–	–	–	–	46 646
Due from other banks	382 242	–	–	–	–	382 242
Short–term placements with other banks	*382 242*		–	–	–	*382 242*
Guarantee deposits with other banks	–	–	–	–	–	–
Loans and advances to customers:	–	–	–	–	–	–
Corporate loans	–	–	–	–	–	–
Loans to individuals – mortgage loans	–	–	–	–	–	–
Loans to individuals – consumer loans	–	–	–	–	–	–
Financial investments– available for sale	–	50 350	–	–	–	50 350
Other financial assets	1	–	–	–	–	1
Total financial assets	**428 889**	**50 350**	**–**	**–**	**–**	**479 239**

30. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORIES (*continued*)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2013.

	Loans and receivables	*Available for sale assets*	*Assets those classified as held for trading*	*Assets at fair value through profit or loss*	*Assets held to maturity*	*Total*
Assets						
Cash and cash equivalents, as well as the obligatory reserves	103 266	–	–	–	–	103 266
Due from other banks	116 951	–	–	–	–	116 951
Financial investments– available for sale	–	150 878	–	–	–	150 878
Other financial assets	1	–	–	–	–	1
Total financial assets	**220 218**	**150 878**	–	–	–	**371 096**

As of 31 December 2014 and 31 December 2013, all financial obligations of the Bank are stated at amortized cost.

31. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if they are under common control or one party has the ability to control the other party or can exercise significant influence over the 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.

On January 30, 2014 WESTAL HOLDING LTD has purchased 121 988 ordinary shares of the Bank therefore previous owner of shares (SECTOR–T Ltd) was reclassified to non–related parties.

The following transactions were carried out with related parties:

Purchases of services

	2014	*2013*
ICU	73	–

These services were purchased by Bank.

Payables to related parties

	2014	*2013*
ICU	24	–

The payable to ICU, relates to an agreement whereby ICU provides Bank with custody services. The payable to ICU no interest and is repayable on demand.

Banking activity

At 31 Decembers 2014, the outstanding balances with related parties were as follows:

	Shareholders	*Subsidiary Companies*	*Key management personnel*	*Entities under common control*	*Other related party*
Correspondent accounts with other banks	–	–	–	–	–
Gross amount of loans and advances to customers	–	–	–	–	–
Impairment provisions for loans and advances to customers	–	–	–	–	–
Other assets	–	–	–	–	–
Term placements and loans from other banks	–	–	–	–	–
Customer accounts	16 449	–	822	115 813	395
Other liabilities	–	–	649	–	–

31. RELATED PARTY TRANSACTIONS (continued)

The income and expense items with related parties for 2014 were as follows:

	Shareholders	*Subsidiary Companies*	*Key management personnel*	*Entities under common control*	*Other related party*
Interest income	–	–	–	–	–
Interest expense	(1)	–	(2)	(4)	(1)
Fee and commissions income	60	–	1	70	–
Fee and commissions expense	–	–	–	(6)	–
Provision for loan impairment	–	–	–	–	–
Administrative and other operating expenses	–	–	(2 739)	(73)	–
Other operation income	–	–	–	–	–

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

Since November 2013 Ukraine is experiencing a political crisis. In 2014 there was the annexation of the Crimea and considering the explosion of separatism and violation ATO was announced on areas of Donetsk and Lugansk. As a result of these dramatic events was the fall in GDP of 6.7%. During 2014 there was a devaluation of the hryvnia more than 100% and it took considerable external funding to support its stability.

In February 2015, Ukraine's sovereign rating was further downgraded to CC with a negative outlook. At the time, the impact of events in the country is difficult to predict and the ongoing crisis may also undermine the Ukrainian economy.

After December 31, 2014 the Bank performs its operations in the normal course of business and management believes that it has taken all necessary measures to support the sustainability of the Bank under these conditions.

Other events that may be significant for users of financial statements after the balance sheet date have not occurred. In particular, there were no:

– Business combinations;

– Suspension or the decision to terminate activities;

– Significant acquisition of assets;

– Restructuring;

– Significant changes in exchange rates or the value of assets of the Bank;

– Court decisions in favour of the plaintiffs, which could cause significant financial obligations of the Bank.

Chairman of the Board **Korchynska S.**