Public Joint Stock Company
“ProCredit Bank”
Financial Statements

Year ended 31 December 2014
Together with Independent Auditors’ Report

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Building a better working world

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Emphasis of Matter

We draw attention to Note 3 to the financial statements, which describes the current political and economic situation in Ukraine. The circumstances referred to in Note 3 could continue to adversely affect the Bank's financial position and performance in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Ernst & Young Audit Services LLC

3 April 2015

ProCredit Bank
Income Statement for the year ended 31 December 2014

In thousands of UAH	**Note**	**2014**	**2013**
Interest income	29	534,033	389,867
Interest expense	29	(207,009)	(141,112)
Net interest income		**327,024**	**248,755**
Allowance for impairment of loans to customers, net of recovery of previously written-off loans to customers	38	(113,433)	2,977
Net interest income after allowance for loan impairment		**213,591**	**251,732**
Fee and commission income	30	**107,836**	**87,277**
Fee and commission expense	30	**(18,641)**	**(11,673)**
Net fee and commission income		**89,195**	**75,604**
Foreign exchange translation losses		(63,246)	(1,159)
Gains / (Losses) from financial assets designated at fair value through profit or loss		51,308	(2,230)
Gains less losses from trading in foreign currencies		77,604	10,577
Gains less losses on investment securities available for sale		-	170
Trading result		**65,666**	**7,358**
Other operating income	31	6,965	4,255
Administrative and other operating expenses	32	(323,320)	(270,150)
Profit before tax		**52,097**	**68,799**
Income tax expenses	33	(16,102)	(26,653)
Profit for the year		**35,995**	**42,146**

Approved for issue and signed on behalf of the Management Board on 03 April 2015.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	**Note**	**2014**	**2013**
Profit for the year		**35,995**	**42,146**
Components of other comprehensive income:			
Losses from revaluation of investment securities available for sale		-	250
Accumulated losses transferred to Income statement upon disposal of investment securities available for sale		-	(170)
Deferred tax on revaluation reserve of available-for-sale securities	33	-	(17)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-	63
Other comprehensive income for the year		**-**	**63**
Total comprehensive income for the year		**35,995**	**42,209**

Approved for issue and signed on behalf of the Management Board on 03 April 2015.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	**Note**	**31 December 2014**	**31 December 2013**
ASSETS			
Cash and cash equivalents	34	632,059	322,549
Mandatory reserves in National Bank of Ukraine	35	94,729	93,348
Financial assets available at fair value through profit or loss	36	82,486	42,916
Loans and advances to customers	37, 38	3,403,366	1,817,542
Investment securities available-for-sale	39	567	432
Current income tax asset		3,032	1,038
Deferred income tax asset	33	10,806	17,462
Premises and equipment	40	79,028	77,201
Intangible assets	42	9,157	9,505
Investment property	41	12,633	13,453
Other financial assets	43	14,775	8,498
Other non-financial assets	43	65,610	57,212
Total assets		**4,408,248**	**2,461,156**
LIABILITIES			
Due to other banks	44	-	25,798
Customer accounts	45	3,670,396	1,877,356
Debt securities in issue	46	21,050	21,040
Other borrowed funds	47	182,665	156,264
Other financial liabilities	48	27,462	14,584
Other non-financial liabilities	48	2,206	1,798
Current income tax liabilities		-	7,287
Subordinated debt	50	159,772	48,327
Total liabilities		**4,063,551**	**2,152,454**
EQUITY			
Share capital	51	298,333	298,333
Share premium		(223)	(223)
Retained earnings		46,587	10,592
Total equity		**344,697**	**308,702**
Total liabilities and equity		**4,408,248**	**2,461,156**

Approved for issue and signed on behalf of the Management Board on 03 April 2015.

Victor Ponomarenko
General Manager

ПроКредит Банк
Ідентифікаційний код 21677333
Публічне акціонерне товариство "ПроКредит Банк" м. Київ Україна

Valerii Smolinskyi
Chief Accounting Officer

ProCredit Bank
Statement of Changes in Equity for the year ended 31 December 2014

In thousands of UAH	Share capital	Share premium	Retained earnings / (Accumulated deficit)	Revaluation reserve of AFS securities	Total equity
Balance at 1 January 2013	**298,333**	**(223)**	**(31,554)**	**(63)**	**266,493**
Profit for the year	-	-	42,146	-	**42,146**
Other comprehensive income for the year	-	-	-	63	**63**
Total comprehensive income for the year	**-**	**-**	**42,146**	**63**	**42,209**
Balance at 31 December 2013	**298,333**	**(223)**	**10,592**	-	**308,702**
Total comprehensive income for the year	-	-	35,995	-	**35,995**
Balance at 31 December 2014	**298,333**	**(223)**	**46,587**	**-**	**344,697**

Approved for issue and signed on behalf of the Management Board on 03 April 2015.

Victor Ponomarenko
General Manager

АТ «ПРОКРЕДИТ БАНК» * м. Київ * Україна * Публічне акціонерне товариство „ПроКредит Банк" ПроКредит Банк Ідентифікаційний код 21677333

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	Note	2014	2013
Profit for the year		**35,995**	**42,146**
Adjustments for :			
Depreciation and amortisation	32	18,773	16,559
Allowance for impairment of loans to customers	38	134,996	45,471
Accrued interest income		(31,414)	(609)
Accrued interest expenses		14,172	2,901
Current and deferred income taxes	33	16,102	26,653
Amortisation of discounts and premiums of financial instruments		5,748	6,118
Revaluation of financial assets designated at fair value through profit or loss		(39,630)	2,230
Other		(319)	-
Cash flows from operating activities before changes in operating assets and liabilities		**154,423**	**141,469**
Increase / decrease in operating assets and liabilities:			
Mandatory reserves in National Bank of Ukraine		(1,381)	9,900
Due from other banks		-	103,944
Loans and advances to customers		(904,615)	(343,399)
Other financial assets		(22)	(805)
Other non-financial assets		(8,398)	(12,130)
Due to other banks		(25,789)	25,789
Customer accounts		1,187,690	294,771
Other financial liabilities		12,878	3,248
Other non-financial liabilities		408	744
Net cash from operating activities before tax		**415,194**	**223,531**
Income tax paid		(18,727)	(5,050)
Net cash from operating activities after tax		**396,467**	**218,481**
Cash flows from investing activities			
Proceeds of investment securities available for sale		-	20,831
Acquisition of premises, equipment and intangible assets		(20,813)	(41,415)
Proceeds from disposal of premises and equipment		1,381	1,318
Net cash used in investing activities		**(19,432)**	**(19,266)**

In thousands of UAH	Note	2014	2013
Cash flows from financing activities			
Repayment of debt securities in issue		(5)	(79,335)
Proceeds from other borrowed funds		259,552	7,993
Repayment of other borrowed funds		(409,663)	(105,685)
Proceeds from subordinated debt		60,385	-
Net cash used in financing activities		**(89,731)**	**(177,027)**
Effect of exchange rate changes on cash and cash equivalents		22,206	(2)
Net changes in cash and cash equivalents		**309,510**	**22,186**
Cash and cash equivalents at the beginning of the year		**322,549**	**300,363**
Cash and cash equivalents at the end of the year	34	**632,059**	**322,549**

Approved for issue and signed on behalf of the Management Board on 03 April 2015.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

A. Basis of Presentation

1) Compliance with International Financial Reporting Standards

ProCredit Bank ("the Bank") prepares its financial statements according to International Financial Reporting Standards ("IFRS"). The Bank's financial statements for the year ended 31 December 2014 are prepared in accordance with IFRS as issued by the IASB and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body have been applied.

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

2) Compliance with Local Law

The Bank is incorporated and domiciled in Ukraine. The Bank is a public joint stock company according to Ukrainian legislative requirements.

The Bank's immediate parent and ultimate controlling party is ProCredit Holding AG&Co. KGaA (2013: ProCredit Holding AG&Co. KGaA).

The Bank's principal business activity is rendering a full range of commercial banking and corporate finance services with the focus being on the provision of financial services to very small, small and medium-sized economic entities in Ukraine for the purpose of making a profit and supporting the social and economic development of Ukraine. The Bank is operating under a banking licence and a general licence to carry out foreign currency transactions No.195 issued by the National Bank of Ukraine on 13 October 2012.

The Bank has 30 branches throughout Ukraine (in 2013 – 33 branches).

The Bank's registered address and place of business is 107-A, Peremohy Avenue, Kyiv, 03115, Ukraine.

3) Operating Environment of the Bank and political situation in Ukraine

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

In 2014, Ukrainian political and economic situation deteriorated significantly. The political and social unrest combined with regional tensions, annexation of the Autonomous Republic of Crimea by the Russian Federation has led to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation and to full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

From 1 January 2014 and up to the date of the issuance of these financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 194% calculated based on the National Bank of Ukraine (the "NBU") exchange rate of UAH to US Dollar. The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements, and also mandated obligatory conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Bank in the reporting period have been taken into account in preparing these financial statements.

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

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

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

As of date of annexation of Crimea by the Russian Federation, the Bank did not operate in the region. The carrying value of loans and advances to customers located in Crimea as at 31 December 2014 is UAH 3,368 thousand, or less than 0.1% of the total book value of assets.

In 2014, the Bank was forced to curtail a part of its operations in the areas affected by the ongoing conflict in the eastern regions of the country, in particular in Donetsk. The carrying value of the assets located in the regions under the conflict as at 31 December 2014 is UAH 116,909 thousands (approximately 2.7% of the total book value of assets), including loans and advances to customers amounted to UAH 115,028 thousands (2.6% of the total book value of assets).

4) Use of Assumptions and Estimates

The Bank's financial reporting and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Accounting policies and management judgements on certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following positions:

Allowances for impairment of loans

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. The Bank estimates changes in future cash flows for an asset based on the observable data indicating that there has been an adverse change in the payment discipline of borrowers or in local economic conditions that could cause a possible default on the assets. Management uses estimates based on historical loss experience for assets with credit-risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Further information on the Bank's accounting policy on loan loss provisioning can be found in Note 13 and Note 38***.***

Tax legislation

Ukrainian tax, currency and customs legislation is subject to varying interpretations. The fiscal year of the Bank is the calendar year. Refer to Note 19.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Particularly, the related parties of the Bank include such entities as international financial institutions. Facilities provided by these entities in developing countries are at rates lower than those provided by commercial organisations. On the other hand, lending by these entities can be considered as a specific market as such rates are applied to all entities receiving facilities from international financial institutions. Based on this no gain on initial recognition of such facilities was recognised. Terms and conditions of related party balances are disclosed in Note 59.

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

5) Accounting Developments

Changes in accounting policies

The Bank has adopted the following amended IFRS during the year:

Investment Entities – Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements.
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments became effective for annual periods beginning on or after 1 January 2014 and did not have any impact on the Bank's financial statements.

Offsetting Financial Assets and Financial liabilities – Amendments to IAS 32 Financial Instruments: Presentation (issued in December 2011).
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments became effective for annual periods beginning on or after 1 January 2014 and did not have any impact on the Bank's financial statements.

IFRIC 21 Levies.
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 became effective for annual periods beginning on or after 1 January 2014. This interpretation did not have any impact on the Bank's financial statements

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 Financial Instrument: Recognition and Measurement.
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments did not have any impact on the Bank's financial statements as the Bank does not apply hedge accounting according to IFRS.

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

Standards and interpretations issued but not yet effective

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

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

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

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

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

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

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

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

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

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements.

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

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 2 Share-based Payment
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service

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

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

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

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

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

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

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

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

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

Annual improvements 2012-2014 Cycle
These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not

change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

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

IFRS 7 Financial Instruments: Disclosures - applicability of the offsetting disclosures to condensed interim financial statements
In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.
The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate
The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'
The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

6) Presentation Currency

These financial statements are presented in thousands of Ukrainian Hryvnia (UAH thousands). For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise specified in Accounting developments above.

B. Summary of Significant Accounting Policies

7) Measurement Basis

These financial statements have been prepared under the historical cost basis, unless IFRS requires recognition at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. exit price) regardless of whether that price is directly observable or estimated using another valuation technique. IFRS define a hierarchy of fair value determination which reflects the relative reliability of the various ways of obtaining a fair value:

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

Use quoted prices of financial instruments in active markets.

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

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

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

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

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

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

Reporting and valuation are conducted according to the going concern assumption.

8) Financial instruments

The Bank classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Management determines the classification of financial assets and liabilities at initial recognition.

(a) ***Financial assets and liabilities at fair value through profit or loss***

Financial assets classified as financial assets held for trading ("trading assets"), or financial assets designated at fair value through profit or loss at inception. The Bank does not apply hedge accounting.

Financial assets available at fair value through profit or loss, include the fair value of derivative financial instruments used for financial risk management, and never with the purpose of hedging with application of hedge accounting as defined by IAS 39 "Financial instruments: recognition and measurement". Derivative financial instruments, which have positive fair value recognised at the reporting date, consist of financial assets included in the group "Financial assets designated at fair value through profit or loss". Derivative financial instruments, which have negative fair value recognised at the reporting date, consist of financial liabilities included in the group "Other financial liabilities".

Financial assets are designated at fair value through profit or loss when they are:

- part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- contains derivative financial instrument, which could not be measures reliably as separate instrument (include indexed state debt securities).

Information about fair value of this portfolio delivers to Bank's Management on monthly basis.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the income statement of the period as "net result from financial assets at fair value through profit or loss".

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date – the date on which the Bank commits to purchase or sell the asset.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each statement of financial position date and whenever there is evidence of potential impairment, the Bank assesses the value of its loans and receivables. Their carrying amount may be reduced, as a consequence, through the use of an allowance account (see Note 13 for the accounting policy for impairment of loans, and Note 38 for details on impairment of loans). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the income statement. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been recognised as of the evaluation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Loss on initial recognition

When the transaction price differs from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the income statement. The amount of difference is amortised over the life-time of the financial instrument using the effective interest method and profit or loss is recognised in the income statement.

(c) Available-for-sale financial investments

Available-for-sale investments are those intended to be held for an indefinite amount of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial recognition, available-for-sale financial investments are recorded at fair value plus transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on currently observable market data. For very short-term financial investments it is assumed that the fair value is best reflected by the transaction price itself. Gains and losses arising from changes in fair value of available-for-sale financial investments are recognised directly in other comprehensive income, until the financial investments is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss as "gains and losses from available-for-sale financial investments". Interest calculated using the effective interest method and foreign currency gains and losses on investments classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive the payment is established.

Purchases and sales of available-for-sale financial investments are recorded on their settlement date. The available-for-sale financial investments are derecognised when the rights to receive cash flows from the investments have expired or where the Bank has transferred substantially all risks and rewards of ownership.

9) Foreign Currency Translation

(a) *Functional and presentation currency*

The Bank's functional currency is the national currency of Ukraine, the Ukrainian Hryvnia (UAH). Monetary assets and liabilities are translated into the functional currency at the NBU's official exchange rate at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement (trading result). Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on their fair value of equity securities are recorded as part of the fair value gain or loss.

The Bank uses the Ukrainian Hryvnia (UAH) as the currency in which it presents its financial statements.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Monetary items denominated in foreign currency are translated at the closing rate on the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Non-monetary items measured at historical cost denominated in foreign currency are translated at the exchange rate as of the date of initial recognition.

The principal UAH rates of exchange used in the preparation of these financial statements are as follows:

Currency	**31 December 2014, UAH**	**31 December 2013, UAH**
1 US dollar (USD)	15.768556	7.993
1 euro (EUR)	19.232908	11.04153
1 Russian ruble (RUB)	0.30304	0.24497

10) Comparatives

In order to comply with the requirements of International financial reporting standards and to meet the objective of providing information that is useful in making economic decisions the Bank can adjust the corresponding figures to conform to the presentation of the current year amounts. There were no changes regarding the disclosure and presentation in the financial statements, except conversion due to change of presentation currency, as mentioned above.

11) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash balances with the National Bank of Ukraine (other than mandatory reserves in the National Bank of Ukraine), correspondent accounts and overnight placements with other banks and other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value.

12) Loans and Receivables

The amounts reported under receivables from customers consist mainly of loans and advances issued.
In addition to overnight and term deposits, the amounts reported under receivables from banks include current account balances.

All loans and receivables due from banks as well as loans and advances to customers fall under the category “loans and receivables” and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the income statement under net interest income. Impairment of loans is recognised through separate allowance accounts (see Note 13 and Note 38).

13) Allowance for Impairment of Financial Assets

(a) Assets carried at amortised cost – loans and advances

Impairment of loans and advances

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the credit exposure, such losses are either calculated on an individual loan basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The Bank does not recognise losses from expected future events.

- Individually assessed loans and advances

Credit exposures are considered individually significant if they exceed USD 30 thousand (2013: USD 30 thousand). For such credit exposures, a determination is made as to whether objective evidence of impairment exists, i.e. any factors that might influence the customer’s ability to fulfil his contractual payment obligations towards the Bank:
- delinquencies in contractual payments of interest or principal:

- breach of covenants or conditions
- initiation of bankruptcy proceedings
- any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client);
- changes in the customer's market environment;
- the general economic situation.

Additionally, the aggregate exposure to the client and the realisable value of collateral held are taken into account when deciding on the allowance for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of asset and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

- <u>Collectively assessed loans and advances</u>

There are two cases in which credit exposures are collectively assessed for impairment:
- individually insignificant credit exposures that show objective evidence of impairment;
- a group of credit exposures which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis.

For the purposes of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant credit exposures (lump-sum impairment) and for unimpaired credit exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics (migration analysis).

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Reversal of impairment

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 by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of deductions for loan impairment in the income statement.

Restructured credit exposures

Restructured credit exposures which are considered to be individually significant are impaired on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured credit exposures which are individually insignificant are collectively assessed for impairment.

Assets acquired in exchange for loans (repossessed property)

Non-financial assets acquired in exchange for loans as part of an orderly realisation are reported in "other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the asset. No depreciation is charged for assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the income statement in “other operating expenses”. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in “other operating income”, together with any realised gains or losses on disposal.

(b) Assets classified as available-for-sale

The Bank assesses at each statement of reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In determining whether an available-for-sale financial asset is impaired the following criteria are considered:

- deterioration of the issuer’s solvency;
- a political situation which may significantly impact the issuers ability to repay;
- additional events that make it unlikely that the carrying amount may be recovered.

The Bank primarily invests in government securities with fixed or variable interest rates. Impairments on these investments are recognised when objective evidence exists that the government is unable or unwilling to service these obligations.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss – 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 reclassified from “Other comprehensive income” to the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement at any point thereafter. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed.

14) Derivative Financial Instruments

Derivatives are initially recognised at the fair value of the consideration given (when acquiring financial assets) or received (when undertaking financial liabilities). Subsequently, derivatives are measured at fair value. If possible, fair values are obtained from quoted markets or from recent market transactions. Otherwise, they are appraised via discounted cash flow models or option pricing models, as appropriate (see Note 7). Derivatives with a positive fair value are carried as financial assets and reported under “Financial assets at fair value through profit or loss”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Financial liabilities at fair value through profit or loss”.

The resulting fair value gain or loss is recognised immediately in the income statement.

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

15) Intangible Assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 10 years.

16) Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to premises and leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

At each reporting date, management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the income statement.

Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives on the following basis (in years):

Premises	20
Computers and equipment	3-5
Furniture and fittings	5-7
Leasehold improvements	over the lower of: term of the underlying lease or term of useful life

Depreciation of premises, leasehold improvements and equipment starts when an asset is available for use.

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 asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

17) Investment property

Investment property is building or a part of building held to earn rental income or for capital appreciation and which is not used by the Bank or held for the sale in the ordinary course of business.

Investment property is initially recognised at cost, including the acquisition costs, and carried at cost less accumulated depreciation and any accumulated impairment. Depreciation is calculated on a straight-line basis over the estimated useful lives of 20 years for buildings. The assets' residual values, useful lives and method are reviewed and adjusted at each reporting date. Gains or losses on disposal of investment property are calculated as proceeds less residual value. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

18) Leases

Finance leases – the Bank as lessor
The Bank recognizes receivables for lease payments in an amount equal to net investment in lease, from the date of inception of lease. Initial direct costs are included in the initial measurement of the lease receivables. Payments received under leases are divided into an amortisation component which is not recognised in the income statement and an income component. The income component is recognised under "interest income". Premiums received are recognised over the term of the lease using the effective interest method under "interest income".

Operating lease – the Bank as lessee
Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised in the income statement under administrative expenses on a straight-line basis over the lease term.

Operating lease – the Bank as lessor
The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

19) Income Tax

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

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

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

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

20) Borrowings

Borrowings which include liabilities to banks and customers, debt securities in issue, other borrowed funds from international financial institutions and subordinated debt are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt consists mainly of liabilities to shareholders and other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

21) Provisions for Liabilities and Charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

22) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss which he incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

23) Share Capital and Other Reserves

Ordinary shares and non-redeemable preference shares are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Excess of fair value of consideration received on nominal value of issued shares is accounted as share premium.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Revaluation reserve of AFS securities
This reserve records fair value changes on investment securities available-for-sale.

24) Interest Income and Expense

Interest income and expenses for all interest-bearing financial instruments, except for those classified as at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expense are recognised in the income statement in the period in which they arise.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount. Payments received in respect of written-off loans are not recognised in net interest income and reduce the allowance for impairment of loans and advances accordingly.

25) Fee and Commission Income and Expenses

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

26) Dividend Income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

27) Amendments of the Financial Statements after Issue

Any changes to these financial statements require the approval of the Bank's management who originally authorised these financial statements for issue.

28) Staff Costs and Related Contributions

Wages, salaries, contributions to Ukraine's state pension and social insurance funds, annual leave and sick leave, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

C. Notes to the Income Statement

29) Interest Income and Expense

	2014	2013
Interest income		
Loans and advances to customers	526,327	378,108
Due from other banks	494	4,488
Cash and cash equivalents	3,109	1,858
Investment securities available-for-sale	-	1,309
	529,930	**385,763**
Net result from financial assets at fair value through profit or loss	4,103	4,104
Total interest income	**534,033**	**389,867**
Interest expense		
Customer accounts	(180,774)	(118,400)
Other borrowed funds	(14,710)	(11,460)
Subordinated debt	(6,798)	(4,134)
Debt securities in issue	(2,797)	(6,959)
Due to other banks	(1,930)	(159)
Total interest expense	**(207,009)**	**(141,112)**
Net interest income	**327,024**	**248,755**

Interest income and expense arising from transactions with related parties are disclosed in Note 59.

30) Fee and Commission Income and Expense

	2014	2013
Fee and commission income		
Settlement and cash transactions	41,024	33,768
Debit cards	45,660	35,276
Foreign exchange operations	21,152	16,784
Other	-	1,449
Total fee and commission income	**107,836**	**87,277**
Fee and commission expense		
Settlement and cash transactions	(7,813)	(4,176)
Debit cards	(10,089)	(7,497)
Other	(739)	-
Total fee and commission expense	**(18,641)**	**(11,673)**
Net fee and commission income	**89,195**	**75,604**

Fee and commission expense arising from transactions with related parties are disclosed in Note 59.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

31) Other operating income

	2014	2013
Other operating income		
Income from sale of repossessed property	2,580	299
Income from rent of investment property	1,428	660
Income from tax recalculation for previous years, other than income tax	1,240	-
Income from disposal of premises and equipment	729	1,310
Rent income other than from investment property	514	401
Income from litigation expenses reimbursement	105	279
Income from sale of loans	-	237
Income from income tax recalculation for previous years	-	781
Other	369	288
Total other operating income	**6,965**	**4,255**

32) Administrative and Other Operating Expenses

	Note	2014	2013
Staff costs		(123,636)	(136,214)
Operating lease expense for premises		(38,306)	(28,399)
Repair and maintenance		(26,844)	(17,647)
Depreciation of premises, leasehold improvements and equipment	40, 41	(15,942)	(13,700)
Business travel, training expenses		(15,944)	(11,913)
Taxes other than on income		(38,543)	(11,256)
Management services		(9,215)	(10,168)
Professional services		(5,906)	(9,565)
Advertising, marketing and entertainment		(8,535)	(8,352)
Office expenses		(5,192)	(5,935)
Mail and telecommunications		(5,059)	(4,745)
Security services		(5,256)	(3,288)
Amortisation of computer software licences	42	(2,831)	(2,859)
Other		(22,111)	(6,109)
Total administrative and other operating expenses		**(323,320)**	**(270,150)**

Included in staff costs are social contributions of UAH 29,882 thousand (2013: UAH 33,923 thousand). Information on administrative and other expenses from transactions with related parties is disclosed in Note 59.

33) Income Taxes

Income tax expense comprises the following:

	2014	2013
Current tax expenses	9,446	12,259
Deferred tax expense	6,656	14,394
Income tax expense for the year	**16,102**	**26,653**

The income tax rate applicable to the Bank's income is 18% (2013: 19%). Reconciliation between the expected and the actual taxation charge is provided below.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	2014	2013
Profit before tax	**52,097**	**68,799**
Theoretical tax expenses at the statutory rate (2014: 18%; 2013: 19%)	9,377	13,072
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	3,193	1,724
Effect of tax base change	(824)	7,923
Effect of tax rate change	(619)	3,934
Effect of changes in unrecognized deferred tax assets	4,975	
Income tax expense for the year	**16,102**	**26,653**

In calculating current taxes on income and earnings the currently valid local tax rate is applied. For calculating deferred taxes tax rates have been applied according to the period when the assets are expected to be realised or liabilities are expected to be settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

In accordance with the accepted provisions and changes to the Tax code introduced as at 31 December 2014, the corporate income tax rate was reduced from 1 January 2014, down to18%.

Differences between IFRS and Ukrainian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the anticipated rates mentioned above.

	31 December 2013	Income Statement	Comprehen-sive Income	31 December 2014
Tax effect of deductible/(taxable) temporary differences:				
Loans and advances to customers	5,710	7,469	-	13,098
Premises and equipment	573	517	-	1,090
Other accrued income and other assets	464	1,436	-	1,900
Unamortised premium and fee on bonds issued	(50)	(3)	-	(53)
Other accrued expenses	949	303	-	1,252
Investment property	-	297	-	297
Revaluation reserve of financial assets designated at fair value through profit or loss	392	(7,124)	-	(6,732)
Tax loss carried forward	9,424	(4,578)	-	4,846
Gross deferred tax asset	**17,462**	**(1,681)**	**-**	**14,913**
Unrecognized deferred tax asset	-	(4,975)	-	(4,975)
Net deferred tax asset	**17,462**	**(6,656)**	**-**	**10,806**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	31 December 2012	Income Statement	Comprehen-sive Income	31 December 2013
Tax effect of deductible/(taxable) temporary differences:				
Loans and advances to customers	9,927	(4,217)	-	5,710
Premises and equipment	8,180	(7,607)	-	573
Other accrued income and other assets	139	325	-	464
Accrued interest expense	344	(344)	-	-
Unamortised premium and fee on bonds issued	-	(50)	-	(50)
Other accrued expenses	1,188	(239)	-	949
Revaluation reserve of AFS securities	17	-	(17)	-
Revaluation reserve of financial assets designated at fair value through profit or loss	-	392	-	392
Tax loss carried forward	12,078	(2,654)	-	9,424
Net deferred tax asset	**31,873**	**(14,394)**	**(17)**	**17,462**

D. Notes to the Statement of Financial Position

34) Cash and Cash Equivalents

	2014	2013
Cash on hand	132,515	124,645
Cash balances with the National Bank of Ukraine (other than mandatory reserves)	51,694	117,109
Correspondent accounts and overnight placements with other banks		
- Ukraine	209	5,670
- Other countries	327,641	75,125
Deposit certificates of the National Bank of Ukraine	120,000	-
Total cash and cash equivalents	**632,059**	**322,549**

The credit quality of cash and cash equivalents except cash on hand balances as at 31 December 2014 may be summarised based on the lowest of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's) as follows:

	Cash balances with the NBU, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Deposit certificates of the National Bank of Ukraine	Total
Neither past due nor impaired				
National Bank of Ukraine	51,694	-	120,000	171,694
A+ rated	-	325,550	-	325,550
BB- rated	-	2,091	-	2,091
B- rated	-	209	-	209
Total cash and cash equivalents, excluding cash on hand	**51,694**	**327,850**	**120,000**	**499,544**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The credit quality of cash and cash equivalents except cash on hand balances as at 31 December 2013 may be summarised based on the lowest of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's) as follows:

	Cash balances with the NBU, excluding mandatory reserves	**Correspondent accounts and overnight placements with other banks**	**Total**
Neither past due nor impaired			
National Bank of Ukraine	117,109	-	117,109
A+ rated	-	66,111	66,111
BB- rated	-	5,670	5,670
B- rated	-	9,014	9,014
Total cash and cash equivalents, excluding cash on hand	**117,109**	**80,795**	**197,904**

Currency and maturity analyses of cash and cash equivalents are disclosed in Note 55. Refer to Note 57 for the estimated fair value of each class of cash and cash equivalents and mandatory reserves.

35) Mandatory reserves in National Bank of Ukraine

Mandatory reserves in National Bank of Ukraine consist of amounts reserved under certain liabilities of the Bank. As at 31 December 2014 the amount of mandatory reserves with NBU was UAH 94,729 thousand (2013: UAH 93,348 thousand).

As at 31 December 2014, in accordance with the NBU regulations the Bank is required to maintain not less than 60% (2013: 100%) of the mandatory reserve balance for the preceding month, observing the following order:
- 0% of the mandatory reserve balance for the preceding month in a separate restricted account with the NBU (2013: 40%)
- the remainder of the amount in a non-restricted account with the NBU (31 December 2013: no limit).

As at 31 December 2014, the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2013: monthly period) and should be maintained at the level of 0 to 15 per cent (2013: 0 to 15 per cent) of certain liabilities of the Bank. As such, the balance can vary from day-to-day. As at 31 December 2014, the outstanding amount of mandatory reserves under certain liabilities of the Bank was UAH 92,805 thousand (2013: 78,974 thousand).

In addition, the reserves at a level of 20% of non-resident funds deposited in the Bank for a term of less than 183 days are maintained with the NBU. As at 31 December 2014, this part of the mandatory reserves is UAH 1,924 thousand (2013: UAH 2,950 thousand). As at 31 December 2014, the part of mandatory reserves as a non-interest bearing deposits in respect of loans granted in foreign currency to borrowers, who have no foreign currency cash proceeds, was absent (2013: UAH 11,424 thousand).

36) Financial assets designated at fair value through profit or loss

As at 31 December 2014, financial assets designated at fair value through profit or loss include bonds of the Ministry of Finance of Ukraine with carrying value UAH 82,486 thousand (2013: UAH 42,916 thousand). Bonds issued by the Ministry of Finance of Ukraine are interest-bearing securities which principal will be indexed for the increase between the average interbank UAH/USD exchange rate for the month prior to the month of issuance and the average UAH/USD exchange rate for the month prior to the month of maturity. The maturity of the bonds - September-October 2015 and coupon rate – 9.3% p.a. The Bank decided not to separate the embedded derivative and designated the entire instrument as at fair value through profit or loss.

Part of the bonds are used as collateral under the loan received from German-Ukrainian Fund (GUF) (Note 47). The carrying value of these bonds is UAH 30,006 thousand (2013: UAH 9,191 thousand).

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

37) Loans and Advances to Customers

The breakdown of loans and advances to customers is presented by categories representing the original loan amounts at the origination date. Loans and advances to customers as at 31 December 2014 are as follows:

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**2,570,880**	**215,962**	**2,354,918**	**69.2%**	**8,146**	**80.5%**
Loan size up to USD 50 thousand	772,310	87,159	685,151	20.1%	6,601	65.2%
Loan size from USD 50 to USD 250 thousand	1,241,022	82,063	1,158,959	34.1%	1,428	14.1%
Loan size more than USD 250 thousand	557,548	46,740	510,808	15.0%	117	1.2%
Agricultural loans	**1,025,432**	**27,577**	**997,855**	**29.3%**	**1,144**	**11.3%**
Loan size up to USD 50 thousand	128,004	3,661	124,343	3.7%	548	5.4%
Loan size from USD 50 to USD 250 thousand	596,460	15,481	580,979	17.1%	530	5.2%
Loan size more than USD 250 thousand	300,968	8,435	292,533	8.6%	66	0.7%
Housing improvement loans	**626**	**414**	**212**	**0.0%**	**86**	**0.8%**
Loan size up to USD 50 thousand	626	414	212	0.0%	86	0.8%
Finance leases	**19,452**	**442**	**19,010**	**0.6%**	**11**	**0.1%**
Loan size up to USD 50 thousand	84	2	82	0.0%	2	0.0%
Loan size from USD 50 to USD 250 thousand	3,614	107	3,507	0.1%	6	0.1%
Loan size more than USD 250 thousand	15,754	333	15,421	0.5%	3	0.0%
Consumer loans*	**22,650**	**3,598**	**19,052**	**0.6%**	**624**	**6.1%**
Loan size up to USD 50 thousand	10,611	2,210	8,401	0.2%	610	6.0%
Loan size from USD 50 to USD 250 thousand	12,039	1,388	10,651	0.3%	14	0.1%
Other loans	**13,304**	**985**	**12,319**	**0.4%**	**118**	**1.2%**
Loan size up to USD 50 thousand	8,846	756	8,090	0.2%	112	1.1%
Loan size from USD 50 to USD 250 thousand	4,458	229	4,229	0.1%	6	0.1%
Total	**3,652,344**	**248,978**	**3,403,366**	**100.0%**	**10,129**	**100.0%**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Loans and advances to customers as at 31 December 2013 are as follows:

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**1,485,352**	**91,130**	**1,394,222**	**76.7%**	**9,703**	**77.2%**
Loan size up to USD 50 thousand	657,102	27,872	629,230	34.6%	8,326	66.2%
Loan size from USD 50 to USD 250 thousand	637,693	36,993	600,700	33.1%	1,294	10.3%
Loan size more than USD 250 thousand	190,557	26,265	164,292	9.0%	83	0.7%
Agricultural loans	**398,230**	**18,833**	**379,397**	**20.9%**	**877**	**7.0%**
Loan size up to USD 50 thousand	68,443	2,253	66,190	3.6%	447	3.6%
Loan size from USD 50 to USD 250 thousand	255,839	14,726	241,113	13.3%	395	3.1%
Loan size more than USD 250 thousand	73,948	1,854	72,094	4.0%	35	0.3%
Housing improvement loans	**5,725**	**407**	**5,318**	**0.3%**	**728**	**5.8%**
Loan size up to USD 50 thousand	5,725	407	5,318	0.3%	728	5.8%
Finance leases	**15,435**	**527**	**14,908**	**0.8%**	**14**	**0.1%**
Loan size up to USD 50 thousand	222	7	215	0.0%	2	0.0%
Loan size from USD 50 to USD 250 thousand	9,202	321	8,881	0.5%	10	0.1%
Loan size more than USD 250 thousand	6,011	199	5,812	0.3%	2	0.0%
Consumer loans*	**14,033**	**812**	**13,221**	**0.7%**	**993**	**7.9%**
Loan size up to USD 50 thousand	7,662	608	7,054	0.4%	981	7.8%
Loan size from USD 50 to USD 250 thousand	6,371	204	6,167	0.3%	12	0.1%
Other loans	**11,226**	**750**	**10,476**	**0.6%**	**246**	**2.0%**
Loan size up to USD 50 thousand	7,278	616	6,662	0.4%	235	1.9%
Loan size from USD 50 to USD 250 thousand	3,948	134	3,814	0.2%	11	0.1%
Total	**1,930,001**	**112,459**	**1,817,542**	**100.0%**	**12,561**	**100.0%**

*Consumer loans also include overdrafts to private individuals.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Economic sector risk concentrations in the customer loan portfolio are as follows:

	2014		**2013**	
	Amount	**%**	**Amount**	**%**
Trade	1,380,172	38	948,980	49
Agriculture and food industry	1,025,467	28	398,323	21
Manufacturing	469,359	13	179,256	9
Services	408,834	11	178,911	9
Transport and communication	318,034	9	176,602	9
Individuals	36,582	1	30,984	2
Other	13,896	0	16,945	1
Total loans and advances to customers (before impairment)	**3,652,344**	**100**	**1,930,001**	**100**

As at 31 December 2014, the Bank had seven borrowers (2013: five borrowers) with aggregated loan amounts above USD 1,000 thousand. The total aggregate amount of these loans was UAH 155,088 thousand (2013: UAH 49,630 thousand) or 4.25% of the gross loan portfolio (2013: 2.57%).

Information about collateral that covers the risk relevant to the loan portfolio as at 31 December 2014 is as follows:

	Business loans	**Agricul-tural loans**	**Housing improve-ment loans**	**Finance leases**	**Consumer loans**	**Other loans**	**Total**
Unsecured loans	240,981	11,483	626	19,452	4,771	4,990	**282,303**
Loans collateralised by:							
- residential real estate	523,641	21,040	-	-	17,434	8,224	**570,339**
- other real estate	977,766	140,347	-	-	155	-	**1,118,268**
- cash deposits	29,873	78	-	-	179	2	**30,132**
- vehicles	617,080	83,859	-	-	111	88	**701,138**
- other assets	181,539	768,625	-	-	-	-	**950,164**
Total loans and advances to customers (before impairment)	**2,570,880**	**1,025,432**	**626**	**19,452**	**22,650**	**13,304**	**3,652,344**

Information about collateral that covers the risk relevant to the loan portfolio as at 31 December 2013 is as follows:

	Business loans	**Agricul-tural loans**	**Housing improve-ment loans**	**Finance leases**	**Consumer loans**	**Other loans**	**Total**
Unsecured loans	230,037	1,990	5,672	-	3,689	1,248	**242,636**
Loans collateralised by:							
- residential real estate	285,589	11,255	38	-	8,036	9,362	**314,280**
- other real estate	497,889	69,883	-	15,435	752	122	**584,081**
- cash deposits	11,298	1,293	-	-	1,218	8	**13,817**
- vehicles	421,716	258,198	15	-	338	486	**680,753**
- other assets	38,823	55,611	-	-	-	-	**94,434**
Total loans and advances to customers (before impairment)	**1,485,352**	**398,230**	**5,725**	**15,435**	**14,033**	**11,226**	**1,930,001**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Finance lease

Loans to legal entities include finance lease receivables. As at 31 December 2014, they can be analysed as follows:

	Not later than 1 year	**Later than 1 year and not later than 5 years**	**Later than 5 years**
Gross investment in finance leases	5,792	20,442	1,292
Unearned future finance income on finance leases	(2,416)	(5,595)	(63)
Net investment in finance leases	**3,376**	**14,847**	**1,229**

The analysis of finance lease receivables as at 31 December 2013 is as follows:

	Not later than 1 year	**Later than 1 year and not later than 5 years**	**Later than 5 years**
Gross investment in finance leases	4,179	10,411	5,873
Unearned future finance income on finance leases	(1,306)	(3,184)	(538)
Net investment in finance leases	**2,873**	**7,227**	**5,335**

Refer to Note 55 for the estimated fair value of the collateral as at 31 December 2014.

Refer to Note 57 for the estimated fair value of each class of “loans and advances to customers”.

Currency and maturity analyses of “loans and advances to customers” are disclosed in Note 55. The information on related party balances is disclosed in Note 59.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

38) Allowance for Impairment on Loans and Advances to Customers

Allowances for impairment on loans and advances to customers as at 31 December 2014 are as follows:

	Gross outstanding amount	Allowance for impairment	Net outstanding amount
Individually significant impaired loans	**427,837**	**(143,345)**	**284,492**
Business	375,613	(130,423)	245,190
Agricultural	29,278	(11,057)	18,221
Housing improvement	121	(64)	57
Finance leases	7,733	(271)	7,462
Consumer	10,579	(1,349)	9,230
Other	4,513	(181)	4,332
Individually insignificant impaired loans	**81,816**	**(49,753)**	**32,063**
Business	69,359	(45,279)	24,080
Agricultural	2,534	(1,259)	1,275
Housing improvement	399	(345)	54
Finance leases	49	(1)	48
Consumer	5,634	(2,139)	3,495
Other	3,841	(730)	3,111
Collectively assessed loans	**3,142,691**	**(55,880)**	**3,086,811**
Business	2,125,908	(40,260)	2,085,648
Agricultural	993,620	(15,261)	978,359
Housing improvement	106	(5)	101
Finance leases	11,670	(170)	11,500
Consumer	6,437	(110)	6,327
Other	4,950	(74)	4,876
Total	**3,652,344**	**(248,978)**	**3,403,366**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Allowance for impairment on loans and advances to customers as at 31 December 2013 were as follows:

	Gross outstanding amount	Allowance for impairment	Net outstanding amount
Individually significant impaired loans	**116,718**	**(46,133)**	**70,585**
Business	91,615	(38,845)	52,770
Agricultural	10,359	(6,738)	3,621
Finance leases	11,993	(440)	11,553
Consumer	1,723	(69)	1,654
Other	1,028	(41)	987
Individually insignificant impaired loans	**19,722**	**(10,077)**	**9,645**
Business	14,050	(8,633)	5,417
Agricultural	332	(246)	86
Housing improvement	424	(261)	163
Consumer	1,915	(449)	1,466
Other	3,001	(488)	2,513
Collectively assessed loans	**1,793,561**	**(56,249)**	**1,737,312**
Business	1,379,687	(43,652)	1,336,035
Agricultural	387,539	(11,849)	375,690
Housing improvement	5,301	(146)	5,155
Finance leases	3,442	(87)	3,355
Consumer	10,395	(294)	10,101
Other	7,197	(221)	6,976
Total	**1,930,001**	**(112,459)**	**1,817,542**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Movements in the allowance for impairment on loans and advances to customers during 2014 are as follows:

	Business loans	Agricultural loans	Housing improvement loans	Finance leases	Consumer loans	Other loans	Total
As at 1 January 2014	**91,130**	**18,833**	**407**	**527**	**812**	**750**	**112,459**
Allowances for impairment during the year	118,288	13,580	490	561	2,186	(109)	**134,996**
Currency translation differences	51,641	2,411	-	-	1,406	354	**55,812**
Amounts written-off during the year as uncollectible	(34,542)	(6,817)	(483)	-	(738)	(10)	**(42,590)**
Interest income on impaired loans	(10,555)	(430)	-	(646)	(68)	-	**(11,699)**
As at 31 December 2014	**215,962**	**27,577**	**414**	**442**	**3,598**	**985**	**248,978**

Allowance for impairment of loans to customers, net of release of previously written-off loans to customers as at 31 December 2014 are as follows:

	Business loans	Agricultural loans	Housing improvement loans	Finance leases	Consumer loans	Other loans	Total
Allowances for impairment during the year	(118,288)	(13,580)	(490)	(561)	(2,186)	109	**(134,996)**
Recovery of previously written-off loss loans	17,077	3,828	405	-	228	25	**21,563**
Total	**(101,211)**	**(9,752)**	**(85)**	**(561)**	**(1,958)**	**134**	**(113,433)**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Movements in the allowance for impairment on loans and advances to customers during 2013 are as follows:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
As at 1 January 2013	**101,082**	**20,755**	**808**	**1,289**	**1,090**	**1,154**	**126,178**
Allowances for impairment during the year	37,986	7,648	357	(661)	547	(406)	**45,471**
Currency translation differences	203	42	2	2	2	2	**253**
Amounts written-off during the year as uncollectible	(41,282)	(9,458)	(760)	-	(825)	-	**(52,325)**
Interest income on impaired loans	(6,859)	(154)	-	(103)	(2)	-	**(7,118)**
As at 31 December 2013	**91,130**	**18,833**	**407**	**527**	**812**	**750**	**112,459**

Allowance for impairment of loans to customers, net of release of previously written-off loans to customers as at 31 December 2013 are as follows:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
Allowances for impairment during the year	(37,986)	(7,648)	(357)	661	(547)	406	**(45,471)**
Recovery of previously written-off loss loans	45,644	1,151	658	-	982	13	**48,448**
Total	**7,658**	**(6,497)**	**301**	**661**	**435**	**419**	**2,977**

39) Financial Investments Available for Sale

	2014	2013
Shares	567	432
Total financial investments available-for-sale	**567**	**432**

As at 31 December 2014, financial investments available-for-sale were neither past due nor impaired.

Currency and maturity analyses of financial investments available-for-sale as at 31 December 2014 are disclosed in Note 55.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

40) Premises and Equipment

The changes in premises and equipment are as follows:

	Note	Land and buildings	Leasehold impro-vements	Assets under cons-truction	Furniture and fixtures	IT and other equip-ment	Total
Cost at 1 January 2013		69,299	10,825	-	44,239	44,378	**168,741**
Accumulated depreciation		(17,785)	(8,201)	-	(38,111)	(37,794)	**(101,891)**
Net book value as at 1 January 2013		**51,514**	**2,624**	**-**	**6,128**	**6,584**	**66,850**
Additions		53	5,560	18,763	7,378	6,754	**38,508**
Transfers		18,763	-	(18,763)	-	-	**-**
Disposals		(645)	(35)	-	(309)	(15)	**(1,004)**
Transfers to investment property	41	(13,453)	-	-	-	-	**(13,453)**
Depreciation charge	32	(3,232)	(2,684)	-	(3,340)	(4,444)	**(13,700)**
Net book value as at 31 December 2013		**53,000**	**5,465**	**-**	**9,857**	**8,879**	**77,201**
Cost at 31 December 2013		70,444	14,915	-	47,551	47,409	**180,319**
Accumulated depreciation		(17,444)	(9,450)	-	(37,694)	(38,530)	**(103,118)**
Net book value as at 1 January 2014		**53,000**	**5,465**	**-**	**9,857**	**8,879**	**77,201**
Additions		220	4,891	5,691	6,698	830	**18,330**
Disposals		(1,306)	-	-	(75)	-	**(1,381)**
Depreciation charge	32	(3,275)	(3,264)	-	(2,697)	(5,886)	**(15,122)**
Net book value as at 31 December 2014		**48,639**	**7,092**	**5,691**	**13,783**	**3,823**	**79,028**
Cost at 31 December 2014		67,283	17,482	5,691	49,176	42,890	**182,522**
Accumulated depreciation		(18,644)	(10,390)	-	(35,393)	(39,067)	**(103,494)**
Net book value as at 31 December 2014		**48,639**	**7,092**	**5,691**	**13,783**	**3,823**	**79,028**

Assets under construction consist mainly of the construction and refurbishment of branch premises. Upon completion when assets are available for use they are transferred to “Land and buildings” or “Leasehold improvements”.

As at 31 December 2014, the land and buildings have a fair value of UAH 118,388 thousand (2013: UAH 108,431 thousand). The fair value of buildings was determined based on comparison with market data by internal appraisers of the Bank, based on active market prices, adjusted for the differences regarding the nature, location or condition of the specific property.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The gross carrying amount of fully amortised premises and equipment that is still in use equals to UAH 72,955 thousand (2013: UAH 69,686 thousand).

41) Investment property

Investment property consists of commercial property, which is assumed for lease to third parties.
The changes in investment property are as follows:

Investment property

	Note	Amount
Cost at 1 January 2013		-
Accumulated depreciation		-
Net book value as at 1 January 2013		-
Transfers from premises	40	13,453
Depreciation	32	-
Net book value as at 31 December 2013		**13,453**
Cost at 31 December 2013		16,386
Accumulated depreciation		(2,933)
Net book value as at 1 January 2014		**13,453**
Depreciation	32	(820)
Net book value as at 31 December 2014		**12,633**
Cost at 31 December 2014		16,386
Accumulated depreciation		(3,753)
Net book value as at 31 December 2014		**12,633**

As at 31 December 2014 the investment property has a fair value of UAH 20,922 thousand (2013: UAH 13,212 thousand). The fair value of investment property was determined based on comparison with market data by internal appraisers of the Bank, based on active market prices, adjusted for the differences regarding the nature, location or condition of the specific property.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

42) Intangible Assets

The changes in intangible assets are as follows:

Computer software licences

	Note	2014	2013
Cost as at 1 January		22,112	24,012
Accumulated amortisation		(12,607)	(14,241)
Net book value as at 1 January		**9,505**	**9,771**
Additions		2,483	2,907
Disposals		-	(314)
Amortisation charge	32	(2,831)	(2,859)
Net book value as at 31 December		**9,157**	**9,505**
Cost as at 31 December		24,265	22,112
Accumulated amortisation		(15,108)	(12,607)
Net book value as at 31 December		**9,157**	**9,505**

43) Other Financial and Non-financial Assets

	2014	2013
Other financial assets		
Guarantee deposits	14,775	8,498
Total other financial assets	**14,775**	**8,498**
Other non-financial assets		
Prepayments for tangible and intangible assets	9,621	1,512
Other prepaid expenses	8,239	5,805
Repossessed property	24,766	38,160
Assets held for sale	1,306	-
Other non-financial assets	21,678	11,735
Total other non-financial assets	**65,610**	**57,212**
Total other financial and non-financial assets	**80,385**	**65,710**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The carrying value of repossessed properties is either assets previous carrying amount or the fair value less cost to sell, whichever is the lower. The following table shows a breakdown of repossessed property:

	2014	**2013**
- residential real estate	3,907	3,993
- other real estate	20,859	34,167
Total	**24,766**	**38,160**

The credit quality of other financial assets as at 31 December 2014, based on the lowest out of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's), may be summarised as follows:

	Guarantee deposits
Neither past due nor impaired	
below B- rated	14,775
Total other financial assets	**14,775**

The credit quality of other financial assets as at 31 December 2013, based on the lowest out of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's), may be summarised as follows:

	Guarantee deposits
Neither past due nor impaired	
below B- rated	8,498
Total other financial assets	**8,498**

Currency and maturity analyses of other financial assets are disclosed in Note 55. Refer to Note 57 for the estimated fair value of each class of other financial assets. The information on related party balances is disclosed in Note 59.

44) Due to Other Banks

	2014	**2013**
Short-term liabilities to other banks	-	25,798
Total	**-**	**25,798**

Currency and maturity analyses of due to other banks are disclosed in Note 55. Refer to Note 57 for the estimated fair value of each class of due to other banks. The information on related party balances is disclosed in Note 59.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

45) Customer Accounts

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits, and other liabilities to customers. The following table shows a breakdown by customer group:

	2014	2013
Current accounts	**1,039,892**	**627,251**
- private individuals	335,016	207,531
- legal entities	704,876	419,720
Savings accounts	**607,365**	**438,874**
- private individuals	418,422	363,658
- legal entities	188,943	75,216
Term deposit accounts	**1,789,819**	**798,583**
- private individuals	1,348,066	769,031
- legal entities	441,753	29,552
Other liabilities to customers	**233,320**	**12,648**
Total	**3,670,396**	**1,877,356**

Savings accounts are interest bearing accounts. Customers can deposit to and withdraw from such accounts at any time. Interest is accrued over daily outstanding balances on such accounts. The interest rate can be unilaterally changed by the Bank based on market interest rates once a year only. Transactions on these accounts are limited to cash depositing and withdrawals, as well as transfers to/from accounts belonging to the same holder.

As at December 31, 2014 term deposits included deposits of private individuals in the amount of UAH 1,348,066 thousands (2013: UAH 769,031 thousands). According to the Civil Code of Ukraine, the Bank is obliged to repay such deposits on demand of the depositor. If the term deposit is repaid on demand before maturity, interest is paid on deposit in the amount corresponding to the amount of interest stipulated for demand deposits, unless the agreement provides different interest rate.

Economic sector concentrations within customer accounts are as follows:

	2014		2013	
	Amount	**%**	**Amount**	**%**
Individuals	2,101,504	57	1,348,367	72
Services	520,755	14	183,311	10
Trade	352,932	10	164,148	9
Industry and other production	116,720	3	38,864	2
Non-governmental organizations	116,585	3	33,749	2
Transport and communication	95,339	3	31,556	2
Agriculture and food processing	56,015	2	27,240	1
Construction	18,391	-	22,174	1
Embassies and consulates	28,558	1	6,914	-
Repair, installation and maintenance services	15,482	-	5,146	-
Other	248,115	7	15,887	1
Total customer accounts	**3,670,396**	**100**	**1,877,356**	**100**

As at 31 December 2014, the Bank had 27 customers (2013: 13 customers) with balances above USD 500 thousand (near UAH 8,000 thousand). The aggregate balance of these customers was UAH 544,019 thousand (2013: UAH 97,663 thousand) or 15% (2013: 5%) of total customer accounts.

As at 31 December 2014, included in customer accounts are deposits of UAH 974 thousand (2013: UAH 1,752 thousand) held as collateral for irrevocable commitments under guarantees issued, covered letters of credit and loans. Refer to Note 58.

Refer to Note 57 for the estimated fair value of each class of customer account. Currency and maturity analyses of customer accounts are disclosed in Note 55. The information on related party balances is disclosed in Note 59.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

46) Debt Securities in Issue

As at 31 December 2014, the Bank has debt securities in issue with a total nominal value of UAH 20,660 thousand (2013: UAH 20,665 thousand) and carrying value of UAH 21,050 thousand (2013: UAH 21,040 thousand) denominated in Ukrainian Hryvnia. These bonds mature in May 2015, have a coupon rate of interest of 13.5% and weighted average yield to maturity of 13.3%.

In 2014, holders of the bonds presented the bonds for early redemption at nominal value in the amount of UAH 5 thousand (2013: UAH 79,335 thousand). Under the terms of issue of the bonds the Bank remained the coupon rate of interest of 13.5% starting from May 2013.

47) Other Borrowed Funds

Liabilities to international financial institutions are an important source of financing for the Bank. Long-term loans from international financial institutions are reported under this item.

				Balance outstanding	
Counterparty	**Currency**	**Date of contract**	**Maturity date**	**2014**	**2013**
ProCredit Holding AG (fee on unused amount of credit line)	USD	12.04.2010	30.09.2015	382	190
ProCredit Holding AG	USD	21.11.2014	21.11.2017	63,571	-
International Finance Corporation (“IFC”)	USD	21.05.2008	15.05.2015	35,144	53,391
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.12.2007	30.12.2014	-	35,457
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	17,484	17,764
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	20,980	21,239
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	14,016	14,147
Kreditanstalt für Wiederaufbau (“KfW”) (accrued interest)	USD	07.10.2009	06.10.2014	-	4,884
German-Ukrainian Fund (“GUF”)	UAH	05.11.2012	02.10.2017	31,088	9,192
Total other borrowed funds				**182,665**	**156,264**

During 2014 the Bank repaid:
- a loan of UAH 61,315 thousand to Kreditanstalt für Wiederaufbau (“KfW”)
- three loans of UAH 45,986 thousand partially to Kreditanstalt für Wiederaufbau (“KfW”)
- a loan of UAH 59,997 thousand partially to International Finance Corporation (“IFC”)
- four loans of UAH 242,365 thousand granted by ProCredit Holding AG in 2014.

Total amount repaid during the year 2014 was UAH 409,663 thousand (2013: UAH 105,685 thousand).

The following table gives a breakdown of liabilities to international financial institutions grouped by the type of interest rate under the respective loan agreements and by the term over which the relevant liabilities are due.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Due	2014	2013
Liabilities with fixed interest rates		**77,969**	**63,870**
	up to 1 year	14,398	40,531
	up to 2 years	-	14,147
	up to 3 years	63,571	-
	up to 4 years	-	9,192
Liabilities with variable interest rates		**104,696**	**92,394**
	up to 1 year	73,608	
	up to 2 years	-	92,394
	up to 3 years	31,088	-
Total		**182,665**	**156,264**

Refer to Note 58 for the information on the fulfilling of the commitments on covenants (if any) according to the respective loan agreements with international financial institutions.

Refer to Note 7 for the estimated fair value of other borrowed funds.

Currency and maturity analyses of other borrowed funds are disclosed in Note 55. The information on related party balances is disclosed in Note 59.

48) Other Financial and Non-financial Liabilities

	Note	2014	2013
Other financial liabilities			
Derivatives	49	4,093	-
Amount payable and other accruals		18,862	10,079
Accrual for unused vacation		4,507	4,505
Total other financial liabilities		**27,462**	**14,584**
Other non-financial liabilities			
Provisions for commitments and contingencies credit risk		22	22
Other		2,184	1,776
Total other non-financial liabilities		**2,206**	**1,798**
Total other financial and non-financial liabilities		**29,668**	**16,382**

Currency and maturity analyses of other financial liabilities are disclosed in Note 55. The information on related party balances is disclosed in Note 59.

49) Derivative Financial Instruments

Foreign exchange derivative financial instruments used in the transactions of the Bank are currency swap contracts concluded with the other banks individually at over-the-counter market. Derivative financial instruments give either potentially favourable (and thus should be treated as assets) or potentially adverse (should be treated as liabilities) effect as a result of fluctuations of market interest rates and exchange rates related to these instruments. Total fair value of derivative financial instruments may change significantly from time to time.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Currency structure of the fair value of amounts receivable and payable related to currency swap contracts concluded by the Bank is disclosed in the table below. The table includes contracts with settlement date after the reporting date; all amounts presented in the long for, i.e. before offset of positions (and payments) by each counterparty. These contracts are short-term ones.

	2014		2013	
	Contracts with positive fair value	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Currency swaps: fair value as at the reporting date:				
- estimated amount receivable in USD (+)	-	72,535	-	-
- estimated amount payable in UAH (-)	-	(76,628)	-	-
Net fair value of currency swaps	**-**	**(4,093)**	**-**	**-**

50) Subordinated Debt

Subordinated debt represents a long-term borrowing agreement, which, in the case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The subordinated debt can be broken down as follows:

Counterparty	Currency	Date of contract	Maturity date	2014	2013
ProCredit Holding	USD	28.09.2006	03.10.2016	-	22,386
ProCredit Holding	USD	17.12.2008	21.12.2018	-	25,941
ProCredit Holding	USD	28.09.2006	21.11.2024	44,558	-
ProCredit Holding	USD	17.12.2008	21.11.2024	51,560	-
ProCredit Holding	USD	18.11.2014	21.11.2024	63,654	-
Total Subordinated Debt				**159,772**	**48,327**

Refer to Note 57 for the estimated fair value of subordinated debt.

The currency and maturity analyses of subordinated debt are disclosed in Note 55. The information on related party balances is disclosed in Note 59.

51) Share Capital

As at 31 December 2014 and 31 December 2013 ordinary share capital consists of 625,712 shares with nominal value of UAH 476.79 per share and total nominal value of UAH 298,333 thousand.

As at 31 December 2014 and as at 31 December 2013, all of the Bank's outstanding shares were authorised, issued and fully paid up.

All shares are divided into ordinary and preference shares. Each ordinary share carries one vote. The preference shares carry no voting rights except for the cases explicitly provided by Ukrainian laws, but are granted a preferred right to receive dividends as well as a priority participation in the distribution of assets in the event of liquidation.

The shareholding structure of the Bank as at 31 December 2014 and 31 December 2013, based on share types, was as follows:

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Shareholder	Number of shares owned	% in share capital	Nominal value
Voting shares			
European Bank for Reconstruction and Development	95,214	20	45,400
ProCredit Holding AG	285,667	60	136,200
Kreditanstalt für Wiederaufbau (KfW)	95,220	20	45,400
Total voting capital	**476,101**	**100**	**227,000**
Non-voting preference shares			
Kreditanstalt für Wiederaufbau (KfW)	149,611	100	**71,333**
Total non-voting capital	**149,611**	**100**	**71,333**
Total capital	**625,712**		**298,333**

E. Risk Management

52) Management of the Overall Bank Risk Profile – Capital Management

Objectives of capital management

With the aim to fulfill stable activity, the Bank should maintain sufficient volume of capital to cover all potential risks the Bank faces in its activity. This rule is put into operation using a system of different indicators for which target and limit ratios have been established. The indicators for the Bank include, in addition to regulatory standards determined by the National Bank of Ukraine, a Basel II capital adequacy calculation, a Tier I leverage ratio and a risk-bearing capacity model.

The capital management of the Bank has the following objectives:

- Ensuring that the Bank is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Full compliance with external capital requirements set by the regulator.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continued growth while following its business strategy.

Capital management – processes and procedures

The capital management of the Bank is governed by the Group Policy on Capital Management and the Group Policy on Risk Bearing Capacity. Regulatory and Basel II capital ratios, the Tier I leverage ratio and the risk bearing capacity are monitored on a monthly basis by the Bank through the Assets and Liabilities Committee (ALCO), the Market Risk Management Committee and the ProCredit Group Risk Management Committee.

Capital management – compliance with regulatory and internal capital requirements

Regulatory minimum capital requirements are imposed and monitored by the National Bank of Ukraine. Capital adequacy is calculated and reported to the Assets and Liabilities Committee (ALCO) of the Bank on a regular basis. These reports include rolling forecasts to ensure not only current but also to perform this on continuing basis.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level of 10% in 2014.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The growth of the exchange rate of foreign currencies to Ukrainian Hryvnia in 2014 significantly affected the statutory capital ratio as a result of revaluation of risk-weighted assets denominated in foreign currency. However, the Bank improved this indicator due to existing subordinated debt prolongation for 10 years and simultaneous increase of attracted subordinated debt.

Statutory capital based on the Bank's reports prepared under regulatory standards of the National Bank of Ukraine is presented in the table below:

	2014	**2013**
Statutory capital ratio (N2)	12.20%	15.89%

In the first quarter of 2015, the Bank started the process of additional strengthening of capital base by attracting new share capital in the amount of EUR 5 million (the process is will be finished till April 2015). The main aim of increasing capital is support of loan granting to target segment and to cope with potential losses that may arise as a consequence of financial crisis.

Additionally, capital adequacy is monitored by using a uniform capital adequacy calculation method across the ProCredit group in accordance with the guidelines of the Basel Committee (Basel II). The calculation of the capital adequacy ratio is based on the Bank's IFRS financial statements and as at the reporting dates comprises:

	2014	**2013**
Tier 1 capital	338,434	308,655
Tier 2 capital	158,316	29,670
Total regulatory capital	**496,750**	**338,325**
Risk weighted assets	3,780,879	2,179,454
Tier I capital ratio	**8.95%**	**14.16%**
Total capital ratio	**13.14%**	**15.52%**

Decrease of the capital adequacy ratio in 2014 compared to 2013 year was the result of growth of the Bank's assets (active loan granting in Ukrainian Hryvnia during 2014) and revaluation of assets denominated in foreign currency due to growth of exchange rate. Tier 2 capital increased due to prolongation of existing subordinated debt and attraction of new one.

The Tier I leverage ratio (defined as a proportion the Bank's capital to the amount of on- and off-balance sheet assets), is monitored on a monthly basis. It should not fall below a minimum of 5%. The Bank has been in compliance with this limit since the indicator was introduced and stayed well above this level at all times, at the end of 2014 the ratio stood at 6.7% (2013: 10.4%)

Risk bearing capacity

In addition to regulatory capital ratios the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operations with the Bank's capacity to bear such losses.

The risk bearing capacity of the Bank is defined as the Bank's equity (net of intangibles) plus subordinated debt. The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential. For calculating potential losses in the different risk categories the following concepts were used:

- Credit risk (clients):
  The historical loss rates and their statistical distribution are calculated based on a regularly updated migration analysis of the loan portfolio. This calculation is regularly updated, which allows implementing the current data to the current credit portfolio.

  The loan portfolio is divided into groups, depending on the quality of credit indebtedness, and in each of such groups are historical norms of losses (calculated statistically, with a confidence interval of 99.75%). The resulting value indicates the maximum amount of possible losses from the realization of credit risk (probability of 99.75%), which the Bank may incur. This amount is reduced by the amount of reserves under credit operations. Taking into account the conservative approach of the Bank to the accrual of reserves under credit operations, the maximum possible amount of expected losses is fully covered by the allowance for credit operations.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

- Credit risk (banks-counterparties):
  The calculation of potential losses in the result of implementation of the credit risk for banks is based on probability of default, which is measured through appropriate international credit rating for each of the counterparties (also taking into account the country's rating of conducting operating activity).

- Market risks:
  For currency risk the amount at risk is calculated as the amount of open currency position, weighed on the amount of monetary shock is defined on the basis of statistical processing of historical data (using a confidence interval of 99%).

  For interest rate risk the effect of possible changes in market interest rates (interest rate shock) on the economic value of the Bank and possible change of interest income during the year interval are implemented. The amount of the interest rate shock is defined as a parallel shift (increase) in interest rates by 2 percentage points (p.p.) for foreign currency and historical shock which was observed during the last 7 years (10 p.p.) - for the Hryvnia.

- Operational risk:
  The Basel II standard approach is used to calculate the respective value. It is based on a maximal volume of potential losses arising from operations with retail and corporate clients.

Other risks have been assessed as not sufficiently relevant for the Bank or as relevant, but not quantifiable, e.g. liquidity risk.

The Bank's utilisation of its RAtCRs was moderate up to 31 December 2014 in spite of current crisis in economy of Ukraine.

The table below shows the distribution of the RAtCRs among the different risk categories as determined by the Market Risk Committee and the level of utilisation as at 31 December 2014.

Risk Factor	Risk Detail	Target (in %)	Target	Actual	Target used (in % of target)
Credit Risk		33.0%	160,849	0	0.0%
Counterparty Risk	Commercial Banks	1.0%	4,874	33	0.7%
	Central Banks	4.0%	19,497	11,191	57.4%
Market Risk	Currency Risk	2.0%	9,748	58,005	595.0%
	Interest Rate Risk	10.0%	48,742	38,958	79.9%
Operational Risk		10.0%	48,742	47,815	98.1%
Total		**60.0%**	**292,452**	**156,002**	**53.3%**

The table below shows the distribution of the RAtCRs among the different risk categories as determined by the Market Risk Committee and the level of utilisation as at 31 December 2013.

Risk Factor	Risk Detail	Target (in %)	Target	Actual	Target used (in % of target)
Credit Risk		33.0%	112,191	0	0.0%
Counterparty Risk	Commercial Banks	1.0%	3,400	6	0.2%
	Central Banks	4.0%	13,599	14,281	105.0%
Market Risk	Currency Risk	2.0%	6,799	1,238	18.2%
	Interest Rate Risk	10.0%	33,997	30,089	88.5%
Operational Risk		10.0%	33,997	43,153	126.9%
Total		**60.0%**	**203,983**	**88,767**	**43.5%**

During 2014 no changes were made in the model "ability to utilise risks".

53) Management of Individual Risks

In 2014, no significant changes in management procedures (and reporting) of the individual Bank's risk has happened. These procedures developed in accordance with the norms of the Federal Department of financial supervision of Germany "Minimum requirements for risk management" (MaRisk") and the requirements of the Basel II accord.

The Bank makes a special emphasis on a common understanding of the factors causing the risks and the need for constant analysis of possible events/scenarios and their possible negative effects. The goals of risk management include the timely identification of significant risks, their full understanding and proper description - for example, ensuring that no single product or service is not offered before until all parties have a full understanding of their nature.

All limits for individual risks within which the Bank positions its own risk strategy are consistent and monitored at group level. Limited deviations are only allowed for stricter limits (i.e. in cases where such limits are stipulated by local law, e.g. for currency risk) or if approved by the Group Risk Management Committee.

54) Credit Risk

Credit risk is defined as the danger that the party to a credit transaction will not be able or will only partially be able to meet its contractually agreed obligations towards the Bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk faced by the Bank.

Credit default risk from customer credit exposures

Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on a thorough implementation of the Bank's lending principles:

- intensive analysis of the debt capacity of the Banks' clients;
- careful documentation of the credit risk assessments;
- rigorous avoidance of over indebting the Bank's clients;
- building a long-term relationship with the client and maintaining regular contact;
- monitoring of loan repayment;
- practising tight arrears management;
- exercising strict collateral collection in the event of default;
- investing in well-trained and highly motivated staff;
- implementing carefully designed and well-documented processes;
- rigorous application of the "four-eyes principle".

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk. The processes are distinguished mainly in terms of segregation of duties in loan granting decision making.

The information collected from the clients range from audited financial statements to management statements and other informal data provided by the client. The key criteria for credit exposure decision are primarily based on the financial position of the client (the liquid funds, profitability ratios and other indicators of creditworthiness of the client) and in a less degree on the collateral requirements.

As a general rule, the lower the amount of the credit exposure, the shorter the term of the credit exposure, the stronger the documentation provided by the client (financial statements audited available), the longer the credit history and the higher the turnover of the client with the Bank, the lower will be the collateral requirements.

The decision-making process ensures that all credit decisions are taken by a credit committee. As a general principle, the Bank considers it very important to ensure that its lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

The key indicator of quality of loan portfolio is share of impaired credit exposure, including overdue credit exposures and credit exposures with revised contractual terms for the worse for the Bank through inability of the borrower to fulfill its obligations.

Credit exposures in arrears are defined credit exposures for which contractual interest and/or principal payments are overdue. The higher quality of the loan portfolio than an average one in a banking sector reflects the efficiency of adopted credit risk management model.

The Bank performs constant monitoring of the quality of credit debt. The strategy of early response to the problems with repayment of the loan includes communication with the customer regarding the establishment of the causes that led to the impossibility of fulfillment of his obligations. Depending on these grounds, the Bank takes a decision on possible revision of the existing conditions of the contract (if the probability of overcoming the situation of insolvency is high), or in the case of foreclosure on the pledged property otherwise.

Additionally, the quality of credit operations is assured by the credit controlling department which is responsible for monitoring the Bank's credit operations and compliance with its procedures.

The efficiency of such system for credit risk management is supported by relatively low level of overdue credit indebtedness of the Bank.

Credit portfolio risk from customer lending

Portfolio credit risk is the risk of default by a set of borrowers at the same time, usually caused by the influence of negative factors that affect a significant number of loans with similar characteristics.

Occurs primarily through the existence of the loan portfolio concentrations of credit risk, that is, a significant group of loans that have common characteristics and can therefore be affected by the influence of negative factors of influence. Example of concentrations can be the following: geographic, sectoral, product, etc.

The main method of reduction of portfolio credit risk is the diversification of the credit portfolio.

Principal activity of the Bank is lending to small and medium enterprises contribute to the diversification of the loan portfolio, and, accordingly, leads to minimize the risk by geographical distribution and economic sectors.

The structure of the loan portfolio is regularly reviewed by the Credit Portfolio Risk Committee in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain types of borrowers (e.g. by industry, by regions, by type of loan).

The Bank follows a guideline that limits concentration of risk in its loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require an approval by the Group Risk Management Committee. No single large credit exposure may exceed 25% of the Bank's regulatory capital.

Individually significant credit exposures are closely monitored by the Credit Risk Management Committee and the Monitoring and Provisioning Committee. For such credit exposures, the committee assesses whether any objective evidence of impairment exists, i.e.:

- more than 30 days in arrears
- delinquencies in contractual payments of interest or principal
- initiation of bankruptcy proceedings
- any specific information about the customer regarding the impossibility of execution of his obligations
- significant negative changes in the customer's market environment
- the general economic situation

For the calculation of individual impairment, a discounted cash flow approach is applied. The realisable net value of collateral held is taken into account. Refer to Note 38 for the amount of individual impairment of credit exposures to customers.

Individually significant credit exposures for which there is no need for an individual impairment allowance are covered by portfolio-based impairment allowances.

For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days, a lump-sum approach is applied; the impairment is determined according to the number of days in arrears.

For all unimpaired credit exposures a portfolio-based impairment is calculated.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

	Business loans	**Agricul-tural loans**	**Housing improve-ment loans**	**Finance leases**	**Consumer loans**	**Other loans**	**Total**
Neither past due nor impaired loans	**2,007,530**	**963,611**	**106**	**10,170**	**6,308**	**4,950**	**2,992,675**
Past due but not impaired loans	**118,378**	**30,009**	**-**	**1,500**	**129**	**-**	**150,016**
1 to 7 days	73,371	28,689	-	494	21	-	**102,575**
8 to 30 days	44,382	1,320	-	1,006	108	-	**46,816**
> 365 days	625	-	-	-	-	-	**625**
		-	-	-	-	-	
Collectively impaired loans	**168,694**	**10,440**	**399**	**568**	**14,894**	**8,354**	**203,349**
0 days	112,627	8,160	12	568	12,638	8,005	**142,010**
1 to 7 days	776	-	-	-	3	347	**1,126**
8 to 30 days	7,541	25	-	-	247	-	**7,813**
31 to 60 days	6,053	829	18	-	244	2	**7,146**
61 to 90 days	5,233	37	24	-	428	-	**5,722**
91 to 180 days	26,527	649	345	-	1,039	-	**28,560**
181 to 365 days	9,937	740	-	-	295	-	**10,972**
Individually impaired loans	**276,278**	**21,372**	**121**	**7,214**	**1,319**	**-**	**306,304**
0 days	139,075	17,349	105	7,214	1	-	163,744
1 to 7 days	5,923	-	7	-	-	-	5,930
8 to 30 days	26,120	-	9	-	3	-	26,132
31 to 60 days	8,664	877	-	-	-	-	9,541
61 to 90 days	1,719	-	-	-	-	-	1,719
91 to 180 days	10,544	1,049	-	-	-	-	11,593
181 to 365 days	48,128	2,097	-	-	1,315	-	51,540
> 365 days	36,105	-	-	-	-	-	36,105
Total	**2,570,880**	**1,025,432**	**626**	**19,452**	**22,650**	**13,304**	**3,652,344**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
Neither past due nor impaired loans	**1,348,527**	**384,295**	**5,198**	**3,442**	**10,255**	**7,182**	**1,758,899**
Past due but not impaired loans	**31,160**	**3,244**	**103**	**-**	**140**	**15**	**34,662**
1 to 7 days	19,803	2,499	53	-	31	12	**22,398**
8 to 30 days	10,393	745	50	-	109	3	**11,300**
> 365 days	964	-	-	-	-	-	**964**
Collectively impaired loans	**19,344**	**1,240**	**424**	**-**	**3,638**	**4,029**	**28,675**
0 days	7,151	11	75	-	3,369	4,029	**14,635**
1 to 7 days	441	-	-	-	-	-	**441**
8 to 30 days	508		-	-	-	-	**508**
31 to 60 days	3,448	1,126	58	-	75	-	**4,707**
61 to 90 days	1,260	-	86	-	115	-	**1,461**
91 to 180 days	2,366	-	205	-	72	-	**2,643**
181 to 365 days	3,004	103	-	-	7	-	**3,114**
> 365 days	1,166	-	-	-	-	-	**1,166**
Individually impaired loans	**86,321**	**9,451**	**-**	**11,993**	**-**	**-**	**107,765**
0 days	39,478	3,233	-	11,993	-	-	**54,704**
1 to 7 days	2,353	-	-	-	-	-	**2,353**
8 to 30 days	6,709	-	-	-	-	-	**6,709**
31 to 60 days	1,997	-	-	-	-	-	**1,997**
61 to 90 days	976	1,928	-	-	-	-	**2,904**
91 to 180 days	6,399	636	-	-	-	-	**7,035**
181 to 365 days	4,574	1,332	-	-	-	-	**5,906**
> 365 days	23,835	2,322	-	-	-	-	**26,157**
Total	**1,485,352**	**398,230**	**5,725**	**15,435**	**14,033**	**11,226**	**1,930,001**

As noted above, the Bank uses the practice of change of contract terms (restructures of credit exposures) in cases, when it is expected that this change will lead to the normalization of credit repayment (i.e. if there is a high probability of restoring solvency of the borrower).

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the Bank's clients currently operate. Restructuring follows a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

Restructured loans, in turn, are divided into groups according to the level of credit risk. In particular, separately allocated restructured impaired loans and restructured loans for which the probability of impairment is high (potentially bad loans).

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The table below presents the customer loan exposures which were restructured as at 31 December 2014:

Loans to customers	Loan portfolio	Watch restructured		Impaired restructured		Total restructured	
		Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio
Business	2,570,880	111,997	4.36%	270,238	10.51%	382,235	14.87%
Agricultural	1,025,432	18,332	1.79%	20,536	2.00%	38,868	3.79%
Housing improvement	626	30	4.79%	127	20.29%	157	25.08%
Finance leases	19,452	7,214	37.09%	519	2.67%	7,733	39.75%
Consumer	22,650	1	0.00%	12,885	56.89%	12,886	56.89%
Other	13,304	-	0.00%	8,352	62.78%	8,352	62.78%
Total	**3,652,344**	**137,574**	**3.77%**	**312,657**	**8.56%**	**450,231**	**12.33%**

The table below presents the customer loan exposures which were restructured as at 31 December 2013:

Loans to customers	Loan portfolio	Watch restructured		Impaired restructured		Total restructured	
		Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio
Business	1,485,352	79,630	5.36%	50,678	3.41%	130,308	8.77%
Agricultural	398,230	19,487	4.89%	1,311	0.33%	20,798	5.22%
Housing improvement	5,725	112	1.96%	75	1.31%	187	3.27%
Finance leases	15,435	9,104	58.98%	-	0.00%	9,104	58.98%
Consumer	14,033	28	0.20%	3,369	24.01%	3,397	24.21%
Other	11,226	-	0.00%	4,018	35.79%	4,018	35.79%
Total	**1,930,001**	**108,361**	**5.61%**	**59,451**	**3.08%**	**167,812**	**8.69%**

Collateralisation is the second most important way to minimize credit risk, after carrying out a detailed credit analysis of the borrower.

The Bank provides unsecured loans, but this practice is used only for very small loans and short term loans with very low risk.

Other loans are secured by movable and non-movable property, mortgage – as a rule.

The fair value of collateral was determined by internal appraisers of the Bank, based on active market prices.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The fair value of collateral covering the total loan portfolio at 31 December 2014 is set out below:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
Fair value of collateral							
- residential real estate	901,279	33,879	-	-	14,682	7,561	**957,401**
- other real estate	1,682,829	237,882	-	-	217	-	**1,920,928**
- cash deposits	40,968	150	-	-	1,151	6	**42,275**
- vehicles	975,596	127,568	-	-	306	225	**1,103,695**
- other assets	252,482	1,188,871	-	-	-	-	**1,441,353**
Total	**3,853,154**	**1,588,350**	**-**	**-**	**16,356**	**7,792**	**5,465,652**

The fair value of collateral covering the total loan portfolio at 31 December 2013 is set out below:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
Fair value of collateral							
- residential real estate	667,009	22,830	199	-	11,295	15,693	**717,026**
- other real estate	1,144,353	164,434	-	-	1,645	365	**1,310,797**
- cash deposits	16,631	2,360	-	-	2,333	83	**21,407**
- vehicles	772,130	530,643	36	-	1,012	449	**1,304,270**
- other assets	53,709	106,705	-	-	-	-	**160,414**
Total	**2,653,832**	**826,972**	**235**	**-**	**16,285**	**16,590**	**3,513,914**

The group policy on the treatment of repossessed property requires that all pledges obtained due to customer defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. In addition, repossessed property is sold at the highest possible price, typically via public auction, and any remaining balance after the payment of principal, interest and penalty are credited to the customer's account. Most repossessed property consists of land and buildings (Refer to Note 43).

55) Financial Risks

Counterparty and issuer risk

The objective of counterparty and issuer risk management is to prevent the Bank from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial bank) or issuer to fulfil its obligations towards the Bank.

This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time
- replacement risk: the risk of losing an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market
- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security

Counterparty and issuer risks evolve especially from the Bank's need (a) to invest its liquidity reserve, (b) to conclude foreign exchange transactions, or (c) to buy protection on specific risk positions. The liquidity is placed in the interbank market with short maturities, typically up to one month. Foreign exchange transactions are generally concluded within one working day.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Furthermore, the Bank also has an exposure towards the National Bank of Ukraine. It includes (1) correspondent with the National Bank of Ukraine, (2) mandatory reserves on special accounts under term deposits of clients and (3) investments in deposit certificates of the NBU – practically the only opportunity to invest liquid resources in Ukrainian Hryvnia in 2014 due to potential deteriorating of financial standing of banks- counterparties as a result of adverse economic conditions.

The Bank cannot avoid this risk, but monitors its level on the ongoing basis.

The counterparty and issuer risks are managed according to the ProCredit Group Counterparty Risk Management Policy (incl. Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the ProCredit Group Treasury Policy, which specifies the set of permissible transactions and rules for their processing. As a matter of principle, only large international banks of systemic importance (and their subsidiaries in Ukraine) and local banks with a good reputation and financial standing are eligible counterparties. As a general rule, the Bank applies limits of up to 10% of its regulatory capital on exposures to banking groups in non-OECD countries and up to 25% on those in OECD countries. Higher limits are subject to approval by the Group Assets and Liabilities Committee (Group ALCO).

The Bank ensures through its Assets and Liabilities Committee and Market Risk Management Committee that each counterparty is approved, including a limit for the maximum exposure, based on a thorough analysis, performed by the risk management department in collaboration with the treasury department.

Group policy forbids the Bank to conduct any speculative trading activities. However, for the purpose of investing its liquidity reserve, the Bank is allowed to buy and hold securities (including T-bonds issued by the government and Deposit Certificates issued by the National Bank of Ukraine). The inherent issuer risk is managed by the provisions of the Bank's conservative Treasury Policy, which is compliant with the ProCredit Group Treasury Policy. In 2014, the Bank did not invest in any securities, except for short-term investments in deposit certificates of the NBU.

The following table provides an overview of the types of counterparties and issuers with whom the Bank concludes transactions:

	Note	**2014**	**in % to Regulatory Capital**	**2013**	**in % to Regulatory Capital**
Banking groups		327,850	66.0	80,795	23.9
Ukraine	34	*209*	*0.0*	*5,670*	*1.7*
OECD banks	34	*325,550*	*65.5*	*66,111*	*19.5*
Non-OECD banks	34	*2,091*	*0.4*	*9,014*	*2.7*
National Bank of Ukraine		266,423	53.7	210,457	62.2
Mandatory reserves	35	*94,729*	*19.1*	*93,348*	*27.6*
Other exposures	34	*171,694*	*34.6*	*117,109*	*34.6*
Government	36	82,486	16.6	42,916	12.7
Total		**676,759**	**136.2**	**334,168**	**98.8**

Interbank placements, interbank loans, foreign exchange transactions and derivative transactions are transactions with banks which are subdivided into those based in OECD countries and those in non-OECD countries.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The distribution of the central bank and government exposures across currencies is shown in the following table as at 31 December 2014:

	UAH	USD	EUR	Total
National Bank of Ukraine	264,499	1,800	124	266,423
Mandatory reserves	*92,805*	*1,800*	*124*	*94,729*
Other exposures	*171,694*	-	-	*171,694*
Government	82,486	-	-	82,486
Total	**346,985**	**1,800**	**124**	**348,909**

The distribution of the central bank and government exposures across currencies is shown in the following table as at 31 December 2013:

	UAH	USD	EUR	Total
National Bank of Ukraine	196,083	9,920	4,454	210,457
Mandatory reserves	*78,974*	*9,920*	*4,454*	*93,348*
Other exposures	*117,109*	-	-	*117,109*
Government	42,916	-	-	42,916
Total	**238,999**	**9,920**	**4,454**	**253,373**

The following table provides an overview of how the Bank's counterparty and issuer risk is broken down by product.

	2014	%	2013	%
Nostro accounts	379,544	56%	197,904	59%
Securities	202,486	30%	42,916	13%
Mandatory reserves	94,729	14%	93,348	28%
Total	**676,759**	**100%**	**334,168**	**100%**

As at 31 December 2014 no funds were placed on the interbank market. Securities include investments in deposit certificates of the NBU (in the amount of UAH 120,000 thousand) and US dollar-indexed government bonds (UAH 82,486 thousand).

Foreign currency risk

Currency risk - a potential risk to earnings and capital of the Bank arising from adverse changes in exchange rates of foreign currencies.

Currently it is one of important issues for the banking system of Ukraine due to two key factors.

On the one hand, currency shock occurred (increase of the exchange rate from 8 to 16 Ukrainian Hryvnyas per 1 US dollar in 2014) and informal market, where transactions were concluded under the exchange rate exceeding 20 Ukrainian Hryvnyas per 1 US dollar at the end 2014, emerged due to regulatory restrictions. Moreover, in January and February 2015, US dollar exchange rate demonstrated further rapid growth up to more than 30 Ukrainian Hryvnyas per 1 US dollar. Significant fluctuations of the exchange rate in 2015 are very likely.

On the other hand, the banks have to maintain short open currency positions (OCPs) due to regulatory restrictions imposed by the NBU in 2009 and currently being removed, though causing some adverse effect (related to non-inclusion of part of foreign currency loan-loss provision for the purpose of open position ratios).

Short OCPs and currency shock lead to losses of Ukrainian banks.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Currency risk management is generally guided by the Group Foreign Currency Risk Management Policy. According to the Policy, the Bank's treasury department is responsible for the continuous monitoring of developments in exchange rates and foreign currency markets. This unit carries out operating management of the currency position. The actual level of currency risk is monitored by the Risk Management Department on a daily basis. Information about the level of currency risk and reports on the situation on the currency markets are regularly considered by the ALCO the Bank, who is authorized to make tactical and strategic decisions regarding the treasury operations.

The Bank's policy prohibits the opening of a long or short currency positions for speculative purposes.
As stated above, open currency position of the Bank is influenced by specific requirements of the NBU. In particular, except for not full inclusion of foreign currency loan-loss provision, it should be mentioned that long OCP is now limited from 5% to 1% of regulatory capital started from September 2014.

The Bank fully met requirements of the National Bank of Ukraine. As a result of adherence to OCP requirements, the currency position of the Bank was open and short as it is disclosed below.

The following table shows the distribution of the Bank's statement of financial position items across its material operating foreign currencies (USD and EUR) as of 31 December 2014:

	EUR	**USD**	**Other currencies**
Assets			
Cash and cash equivalents	15,565	18,840	-
Financial assets available at fair value through profit or loss	-	81,400	-
Due from other banks	143,064	194,984	4,577
Loans and advances to customers	233,679	897,235	-
Investment securities available-for-sale	317	-	-
Other financial assets	2,920	6,445	-
Total assets	**395,545**	**1,198,904**	**4,577**
Open forward position	**-**	**72,535**	**-**
Liabilities			
Customer accounts	413,111	1,066,430	5,101
Other borrowed funds	-	87,743	-
Other financial liabilities	2,761	7,701	133
Subordinated debt	-	159,772	-
Total liabilities	**415,872**	**1,321,646**	**5,234**
Net position	**(20,327)**	**(50,207)**	**(657)**
Credit commitments	**11,559**	**10,106**	**-**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The following table shows the distribution of the Bank's statement of financial position items across its material operating foreign currencies (USD and EUR) as of 31 December 2013:

	EUR	**USD**	**Other currencies**
Assets			
Cash and cash equivalents	15,428	37,642	453
Financial assets available at fair value through profit or loss	-	42,916	-
Due from other banks	17,939	55,458	10,232
Loans and advances to customers	130,239	522,793	-
Investment securities available-for-sale	182	-	-
Other financial assets	649	1,978	-
Total assets	**164,437**	**660,787**	**10,685**
Liabilities	-	12,794	-
Due to banks Customer accounts	163,700	441,820	9,988
Other borrowed funds	-	147,203	-
Other financial liabilities	2,319	2,558	64
Subordinated debt	-	48,327	-
Total liabilities	**166,019**	**652,702**	**10,052**
Net position	**(1,582)**	**8,085**	**633**
Credit commitments	**5,594**	**5,469**	**-**

To assess the Bank's currency risk for risk-bearing capacity, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period is determined to be one year and the look-back period is seven years. Correlation effects are included in the analysis by taking into account the historical parallel movements of each currency in which the bank has significant currency positions (USD and EUR). The results are shown in the following table:

	2014	**2013**
Maximum loss (VaR), 99% confidence	(57,925)	(838)
Average loss in case confidence interval is exceeded	(58,859)	(919)

Overall, in 2014 the foreign currency risk was estimated as high, as a result of significant exchange rate fluctuations and open currency position imposed by regulatory requirements.

Interest rate risk

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities, e.g. if a three-year fixed interest rate loan is funded with a three-month term deposit, the Bank would be exposed to the risk of reducing the margin on the loan in case of increase of market interest rates, because in a quarter term deposit will be replaced by more expensive one while loan rate would remain unchanged.

The Bank extensively uses floating interest rate in loan granting. Though significant part of the Bank's outstanding loans (approximately one fourth) have fixed interest rates. And taking into account the fact that average maturity of term deposits of the clients reduced to 1-3 months, it should be mentioned that the Bank is exposing to interest rate risks as described above. Financial instruments to mitigate interest rate risks (hedges) were still not available on the Ukrainian market. In this situation loan granting under variable interest rates remains the main instrument of mitigating interest rate risks.

The Bank's approach to measuring and managing interest rate risk is guided by the Group Interest Rate Risk Policy.

The main indicator for managing interest rate risk measures the potential impact of interest rates change for assets and liabilities on (1) profitability of the Bank and (2) economic capital. The indicator analyses the potential loss that the Bank would incur in the event of very unfavourable movements (shocks) in interest rates on assets and liabilities. For EUR or USD, a parallel shift in the interest rate curve of +/- 2 p.p. is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last seven years and may reach 10 p.p. The system of indicators includes the following: potential decrease of interest rates in the next 12 months, potential impact on the regulatory capital of the Bank (threshold is determined at the level of 10% of regulatory capital).

Interest rate risk is regularly discussed by the Bank's Market Risk Management Committee. The indicators are also reported to the Group Risk Management Committee on a monthly basis.

In order to limit the interest rate risk, the Bank aims to align the maturities of those balance sheet items which generate interest earnings and interest expenses. Accordingly, the Bank continued increase share of loans with variable interest rates in total loan portfolio.

The Bank finished the year 2014 with a figure of 7.8% (2013: 1.0%) for potential decrease of interest income during the next 12 months and 6.4% (2013: 9.3%) for the economic value impact to capital ratio, compared to the 10.0% limit.

General market trends in 2014 demonstrated the constant increase of market interest rates (as a result of outflow of clients' funds from the banking system), which led to interest rate shock, especially for liabilities, because similar rise in interest rates for borrowers was limited to ability of servicing loans with higher interest rate. In addition, the interest rate on loans often remained not increased for the business reasons (as the Bank's strategy was to increase market share in segments of small and medium enterprises). Accordingly, in 2014, the interest margin decreased slowly.

As a result of such adverse trends and further growth of interest rates in the beginning of 2015 (the NBU discount rate increased to 19.5% and later to 30%), the Bank's interest rate risk is assessed as high.

Liquidity risk

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

In 2014, the banking system faced many challenges. There was a significant outflow of funds denominated in both local and foreign currencies from the banking system during the year. Competition for customer accounts increased significantly and banks actively raised interest rates. The National Bank of Ukraine imposed several restrictions on cash withdrawals both in foreign and local currencies with the aim to slow the outflow of funds. As of early 2015, the process of withdrawing deposits from the banking system continued.

The Bank's performance appeared to be much better than that of the market on the whole as a reputation of reliable international group contributed to the high confidence of customers. As a result, in 2014, the deposit portfolio increased significantly due to private individuals and especially legal entities.

With a view to meet the situation the Bank has adapted its own system of liquidity management to the current market trends. In particular, daily monitoring of highly liquid assets and current trends in the deposit base is performed. The Bank has developed a clear response to potential outflows including both price-based measures (managing interest rates and terms of deposits), plans to minimize the outflow by reducing (stop) lending and raising funds from the parent group in case of emergency.

The Bank's business model is based on lending large number of small and medium enterprises (meaning high diversification of the loan portfolio). This approach ensures a constant source of liquid resources for the repayment of the loan portfolio, especially given the absence of significant concentrations of liquidity (mainly as a result of annuity form of loan repayment and relatively low non-performing debt).

On the other hand, the loan portfolio is funded from two main sources: mainly customer funds are used to obtain funds in local currency, while customer funds and loans from international financial organizations are used to obtain funds in foreign currency.

Given the tendency to reduce the amount of funds raised in foreign currency, Bank's dependency on the capital market can be assessed as low.

The Bank's ALCO determines the liquidity strategy of the Bank and sets the liquidity risk limits. The treasury department manages the Bank's liquidity on a daily basis and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits are constantly monitored by the risk management department.

The standards applied by the Bank in the management of liquidity are based on regulatory requirements, Group liquidity risk management policy and the Group treasury policy. Any violation of limits and all exceptions to these policies are approved by the Group Risk Management Committee.

Treasury manages liquidity on a daily level using an approach based on cash flow analysis. This method was designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast liquidity risk indicators.

The key tools for measuring liquidity risks is a forward-looking liquidity gap analysis, which shows the contractual maturity structure of the assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of the future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Bank's liquidity situation in a worst-case scenario (stress test).

To analyze the liquidity risk the Bank on a regular basis uses the following ratios and indicators:
a) regulatory ratios relating to liquidity;
b) analysis of liquidity gaps by maturity;
c) the amount of highly liquid resources for each of the major currencies;
d) sufficient liquidity indicator (main figure to estimate a short-term liquidity level. It compares the amount of available liquid assets and liabilities expected to mature within the next 30 days. Bank supports this ratio at no less than 1.0, which means that the Bank always has sufficient funds to made all the repayments which are expected within the next 30 days);
e) ratio of borrowing from interbank market;
f) ratio of interbank overnight loans.

This is complemented by early warning indicators, the foremost being the highly liquid assets indicator, which relates highly liquid assets to customer deposits. The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines which can be drawn by the Bank and other assets which take some time to liquidate.

The Group Liquidity Risk Management Policy prescribes the close monitoring of early warning indicators. If the highly liquid asset indicator drops below 20%, if the short-term liquidity position becomes negative, or if the depositor concentration (10 largest client's deposits) rises above 20%, the Bank's ALCO and the Group ALCO or Group Risk Management Committee must be involved in decisions on appropriate measures.

In order to protect the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and the target volume of Bank's liquidity reserve is determined by the ALCO. The main liquidity reserve of the Bank is a standby line provided by the ProCredit Holding. During 2014, the Bank had standby line of USD 11.0 million to use under stress conditions to cover possible liquidity gaps.

The Bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependency on a few large depositors. According to the Bank's internal guidelines, a significant depositor concentration exists if the 10 largest depositors exceed 20% of total customer deposits. This serves as an early warning signal pointing at the necessity to discuss measures reducing depositor concentration. Respective decisions are made by the bank's ALCO and brought to attention of Group Risk Management Committee.

During 2014, the liquidity level decreased due to the following factors:

- In UAH: the Bank chose the strategy of increasing market share due to lower competition at loan granting market and the opportunity to establish relations with new reliable customers with a high degree of formality. As a result, loan portfolio in local currency almost doubled and was funded by both increase of customer accounts and internal reserves of liquidity.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

- In foreign currency: the Bank repaid loans obtained from international organizations according to payment schedule. The loans abovementioned were partially refinanced by the parent company.

In 2015 further increase of loan portfolio in Ukrainian Hryvnia is planned. The main source of financing – customer accounts. Support sources – funds of finance organizations, such as GUF.

The Bank remained within all liquidity limits over the year - internal and external one - including the regulatory liquidity limits set by the National Bank of Ukraine.

The table below shows the list of main liquidity indicators:

Liquidity indicator	**Limit**	**2014**	**2013**
Regulatory liquidity ratios			
Instant liquidity ratio (H4)	Not less than 30.0%	42.67%	34.28%
Current liquidity ratio (H5)	Not less than 40.0%	48.17%	46.98%
Short-term liquidity ratio (H6)	Not less than 60.0%	66.92%	70.22%
Internal liquidity ratios			
Sufficient liquidity indicator	Not less than 1.0	1.1	1.6
Interbank market indicator	Not higher than 40.0%	17.85%	9.30%
Overnight funding indicator	Not higher than 4.0%	0.00%	0.00%

Based on the current weak liquidity level and adverse deposit-base developments as of early 2015, the liquidity risk is assessed as high.

The following table shows the undiscounted future cash flows of the financial liabilities of the Bank according to their remaining contractual maturities at 31 December 2014. The remaining contractual maturity is defined as the period between the reporting date and the contractually agreed due date of the liability, or the due date of a partial payment under the contract for liability.

	Trading derivatives	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Liabilities								
Gross settled derivative financial instruments								
- Contractual amounts payable	77,062	-	-	-	-	-		**77,062**
- Contractual amounts receivable	72,505	-	-	-	-	-	-	**72,505**
Customer accounts		2,461,737	610,149	640,791	7,175	3,984	6,200	**3,730,036**
Debt securities in issue		-	695	21,355	-	-	-	**22,050**
Other borrowed funds		1,583	-	96,485	7,410	98,287	-	**203,765**
Subordinated debt		-	-	15,100	13,681	40,931	226,610	**296,322**
Other financial liabilities		23,369	-	-		-	-	**23,369**
Total potential future payments for financial obligations	**4,557**	**2,486,689**	**610,844**	**773,731**	**28,266**	**143,202**	**232,810**	**4,280,099**
Commitments and contingencies		5,128						**5,128**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The following table shows the undiscounted future cash flows of the financial liabilities of the Bank according to their remaining contractual maturities at 31 December 2013.

	Up to 1 month	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Liabilities							
Due to other banks	25,811	-	-	-	-	-	**25,811**
Customer accounts	1,210,355	223,044	466,408	10,670	1,140	5,015	**1,916,632**
Debt securities in issue	-	696	2,087	22,056	-	-	**24,839**
Other borrowed funds	192	-	105,554	48,752	10,244	-	**164,742**
Subordinated debt	-	-	4,128	4,079	55,652	-	**63,859**
Other financial liabilities	14,584	-	-	-	-	-	**14,584**
Total potential future payments for financial obligations	**1,250,942**	**223,740**	**578,177**	**85,557**	**67,036**	**5,015**	**2,210,467**
Commitments and contingencies	4,718						**4,718**

Since not all cash flows will occur in the future as specified by contract terms (for example, despite the opportunity to withdraw all funds from current accounts within one day, usually in general they maintained a relatively stable balance), the Bank applies assumptions, especially regarding deposit withdrawals.

The core assumptions used for the purposes of calculating the internal liquidity indicators are as follows:

- 50% of interbank liabilities contractually due at sight will be withdrawn in the next month: another 50% will be withdrawn within the following three months.
- 20% of customer deposits contractually due at sight will be withdrawn within the next month, 80% will be withdrawn later.
- 5% of exposures guaranteed by the bank will require a payment within the next month.
- 20% of credit lines which the bank has committed to its customers, but which are currently undrawn, will be drawn within the next month.

The goal is always to have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the Bank's available assets should always exceed the expected liabilities, as calculated by applying the above assumptions.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The following table summarises the results of this approach to measuring liquidity risk and shows the distribution of liquidity-relevant positions across certain time buckets as at 31 December 2014. The distribution is based on an internal model of liquidity management of the Bank, which takes into account the main expected cash flows of the principal debt of financial instruments (i.e. excluding future accrued interest).

	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	More than 1 year	Total
Assets						
Cash on hand	132,515	-	-	-	-	**132,515**
Mandatory reserves in the National Bank of Ukraine	94,729	-	-	-	-	**94,729**
Cash balances with the National Bank of Ukraine (other than mandatory reserves)	51,694	-	-	-	-	**51,694**
Correspondent accounts and overnight placements with other banks	342,625	-	-	-	-	**342,625**
Government bonds	168,060	-	-	-	-	**168,060**
Loans and advances to customers	78,730	277,771	349,350	845,436	1,916,355	**3,467,642**
Derivatives (assets)	72,535	-	-	-	-	**72,535**
Total Assets	**940,888**	**277,771**	**349,350**	**845,436**	**1,916,355**	**4,329,800**
Unused irrevocable and unconditional credit commitments	173,454	-	-	-	-	**173,454**
Total	**1,114,341**	**277,771**	**349,350**	**845,436**	**1,916,355**	**4,503,253**
Due to other banks	35	35	-	-	63,074	**63,144**
Customer accounts (other than term deposit accounts)	336,711	67,342	101,013	202,027	976,461	**1,683,554**
Other borrowed funds (other than liabilities to PCH)	-	-	35,041	26,281	56,281	**117,603**
Customer accounts (term deposit accounts)	572,512	569,349	332,061	260,979	16,175	**1,751,076**
Debt securities in issue	-	-	20,660	-	-	**20,660**
Subordinated debt	-	-	-	-	158,316	**158,316**
Derivatives (liabilities)	72,535	-	-	-	-	**72,535**
Total Liabilities	981,793	636,726	488,775	489,287	1,270,307	3,866,888
Undrawn loan commitments	56,732	-	-	-	-	**56,732**
Total	**1,038,525**	**636,726**	**488,775**	**489,287**	**1,270,307**	**3,923,620**
Expected liquidity gap	75,816	(283,139)	(422,564)	(66,415)	579,633	
Sufficient Liquidity Indicator	**1,1**					

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The following table summarises the results of this approach to measuring liquidity risk and shows the distribution of liquidity-relevant positions across certain time buckets as at 31 December 2013.

	Up to 1 month	**1 - 3 months**	**3 - 6 months**	**7 - 12 months**	**More than 1 year**	**Total**
Assets						
Cash on hand	124,644	-	-	-	-	**124,644**
Mandatory reserves in the National Bank of Ukraine	93,348	-	-	-	-	**93,348**
Cash balances with the National Bank of Ukraine (other than mandatory reserves)	117,109	-	-	-	-	**117,109**
Correspondent accounts and overnight placements with other banks	89,293	-	-	-	-	**89,293**
Government bonds	32,916	-	-	-	-	**32,916**
Loans and advances to customers	72,765	182,307	229,205	485,342	906,457	**1,876,076**
Total Assets	**530,075**	**182,307**	**229,205**	**485,342**	**906,457**	**2,333,386**
Unused irrevocable and unconditional credit commitments	87,923	-	-	-	-	**87,923**
Total	**617,998**	**182,307**	**229,205**	**485,342**	**906,457**	**2,421,309**
Due to other banks	25,789	-	-	-	-	**25,789**
Customer accounts (other than term deposit accounts)	212,659	42,532	63,798	127,595	616,711	**1,063,295**
Other borrowed funds (other than liabilities to PCH)	-	-	17,762	48,846	84,489	**151,097**
Customer accounts (term deposit accounts)	127,480	204,294	185,845	243,935	13,556	**775,110**
Debt securities in issue	-	-	-	-	20,665	**20,665**
Subordinated debt	-	-	-	-	48,278	**48,278**
Total Liabilities	**365,928**	**246,826**	**267,405**	**420,376**	**783,699**	**2,084,234**
Undrawn loan commitments	29,212	-	-	-	-	**29,212**
Total	**395,140**	**246,826**	**267,405**	**420,376**	**783,699**	**2,113,446**
Expected liquidity gap	222,858	158,339	120,139	185,105	307,863	
Sufficient Liquidity Indicator	**1,6**					

The expected liquidity gap quantifies the potential liquidity needs within a time bucket if it has a negative value, and it shows a potential liquidity excess if it has a positive one. This calculation includes positive excess values from previous time buckets. On an operational level, the gap report is broken down into the most important currencies (UAH, USD and EUR).

Overall, the Bank considers its funding sources to be sufficiently diversified, especially given that the bulk of the Bank's funds are provided by a large number of customer deposits. Simultaneously, the resources raised from international financial institutions declined in 2014; Bank's dependency on the capital market situation decreased correspondingly.

56) Operational Risk

Operational risk is recognised as an important risk factor for the Bank given that it relies on uncertainty in some parts of Donetsk and Luhansk regions where business units of some borrowers and 2 branches of the Bank (closed since July 2014) are located, decentralised processing and decision-making, innovative approach in dealing cash etc. In line with Basel II, the Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people and IT-systems and/or external events. The Bank follows Operational Risk Management Policy which is constantly improved. The principles outlined in this document are designed to manage the Bank's operational risk exposure effectively. They are in compliance with not only with the regulations of the National Bank of Ukraine but also with more detailed requirements of the EU law (Kreditwesengesetz, the German Banking Act, and MaRisk, Minimum Requirements for Risk Management).

The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database.

The overall objectives of this approach to the management of operational risks are
- understanding of key factors of operational risks of the Bank
- to be able to identify critical issues as early as possible
- to avoid losses caused by operational risks; and
- to ensure efficient use of the Bank's capital.

To achieve these goals the following tools and processes have been implemented within the framework outlined above. They are presented in the sequence in which they are used within the operational risk management process. This process is subdivided into the following phases: identification, evaluation, treatment, monitoring, documentation and communication, and follow up.

- **Identification**
  - Annual operational and fraud risk assessments
  - New risk approval (NRA) process
  - Risk identification and documentation in the Risk Event Database (RED)
  - Ad hoc identification of potential risks
- **Evaluation / quantification**
  - Agreed standards to quantify risks
- **Mitigation and treatment**
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurer or other party
- **Monitoring and control**
  - Process owners' responsibility to monitor risks
  - Key risk indicators (KRIs) and operational risk reports, risk bearing capacity calculation and monitoring
- **Communication, escalation, documentation**
  - Escalation levels to management bodies, regular reporting, risk committees
  - RED, management summary documents for risk events
- **Issue tracking / follow-up tables for material action plans**
  - Follow-up tools used in the Bank

To constantly enhance the professional standards of the Bank and to ensure the full and timely informing employees of the Bank, in 2014, training activities covering such topics as operational risks on the whole, fraud risk, information security and anti-money laundering were held. Annual risk awareness training is provided to all existing staff as well as to all newly hired employees. Additionally, training programs of ProCredit Academy in Fürth, Germany, and Veles, Macedonia, are widely used. Training programmes for candidates for management positions include various modules focusing explicitly on operational risk management.

Organisation of the risk management function

Responsibility for risk management at the Bank lies with the Management Board.

The risk management function comprises various organisational units, including the credit risk department and the risk management department. Risk management department is responsibility for capital management and for market risks control. These organisational units report to the Bank's Management Board. Key issues are discussed by the Bank's Credit Portfolio Risk Committee, ALCO, Market Risk Management Committee, Operational Risk Management Committee. Committees are specialised with the aim to consider individual risks carefully such as market risks (ALCO, Market Risk Management Committee), credit risks (Credit Portfolio Risk Committee) and operational risks (Operational Risk Committee).

At the Bank, risk management is implemented and developed, in operational terms, by a risk management department which is an autonomous department within the Bank's organisation and which is not involved in any way with the Bank's customer service operations (credit or deposit business) or trading operations. The risk departments report regularly to the corresponding risk departments at ProCredit Holding.

The Bank's risk policies address all risk categories and set standards that enable risks to be identified early and to be managed appropriately. The risk management department carries out regular monitoring to ensure that the total volume of all risks incurred does not exceed the limits agreed, i.e., that the risk bearing capacity of the Bank is not exceeded, so that sufficient capital is available to cover even unlikely potential losses.

The respective risk positions of the individual banks are described in a standard General Risk Report which is generated at least quarterly. This risk report is provided to the local risk committees and to the Group Risk management function at ProCredit Holding.

F. Additional Notes

57) Fair Value of Financial Instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique (Refer to Note 7):

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable in the market, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2014:

	Level 1	***Level 2***	***Level 3***	***Total***
Assets at fair value				
Deposit certificates of the National Bank of Ukraine	-	120,000	-	**120,000**
Securities designated at fair value through profit or loss	-	82,486	-	**82,486**
Investment securities available-for-sale	-	317	250	**567**
Total assets at fair value	**-**	**202,803**	**250**	**203,053**
Liabilities at fair value				
Derivative financial instruments	-	4,093	-	**4,093,**
Total liabilities at fair value	**-**	**4,093**	**-**	**,4,093**
Assets for which fair values are disclosed				
Cash on hand	132,515	379,544	-	**512,059**
Mandatory reserves in the National Bank of Ukraine	-	94,729	-	**94,729**
Loans and advances to customers	-	-	3,403,366	**3,403,366**
Other assets (less derivative financial instruments)	-	-	14,775	**14,775**
Investment property	-	-	12,633	**12,633**
Land and buildings	-	-	48,639	**48,639**
Total assets for which fair values are disclosed	**132,515**	**474,273**	**3,479,413**	**4,086,201**
Liabilities for which fair values are disclosed				
Due to customers (on demand)	-	1,647,257	-	**1,647,257**
Due to customers (term deposits)	-	-	2,023,139	**2,023,139**
Other borrowed funds	-	-	182,665	**182,665**
Other liabilities (less derivative financial instruments)	-	-	27,462	**27,462**
Subordinated debt	**-**	159,772	**-**	**159,772**
Total liabilities for which fair values are disclosed	-	**1,807,029**	**2,233,266**	**4,040,295**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

	Level 1	***Level 2***	***Level 3***	***Total***
Assets at fair value				
Securities designated at fair value through profit or loss	-	42,916	-	**42,916**
Investment securities available-for-sale	-	432	-	**432**
Total assets at fair value	**-**	**43,348**	**-**	**43,348**
Assets for which fair values are disclosed				
Cash on hand	322,549	-	-	**322,549**
Mandatory reserves in the National Bank of Ukraine	-	93,348	-	**93,348**
Loans and advances to customers	-	1,817,542	-	**1,817,542**
Other assets (less derivative financial instruments)	-	8,498	-	**8,498**
Investment property	-	-	13,453	**13,453**
Land and buildings	-	-	53,000	**53,000**
Total assets for which fair values are disclosed	**322,549**	**1,919,388**	**66,453**	**2,308,390**
Liabilities for which fair values are disclosed				
Due to banks	-	25,798	-	**25,798**
Due to customers (on demand)	-	1,066,125	-	**1,066,125**
Due to customers (term deposits)	-	811,231	-	**811,231**
Other borrowed funds	-	156,264	-	**156,264**
Other liabilities (less derivative financial instruments)	-	14,584	-	**14,584**
Subordinated debt	**-**	48,327	**-**	**48,327**
Total liabilities for which fair values are disclosed	-	**2,122,329**	-	**2,122,329**

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

	2014		2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	**632,059**	**632,059**	**322,549**	**322,549**
Loans and advances to customers	**3,403,366**	**3,385,687**	**1,817,542**	**1,831,979**
Business loans	2,354,918	2,343,780	1,394,222	1,409,494
Agricultural loans	997,855	992,198	379,397	379,457
Housing improvement loans	212	212	5,318	5,318
Finance leases	19,010	18,656	14,908	11,401
Consumer loans	19,052	18,698	13,221	13,276
Other loans	12,319	12,142	10,476	13,033
Other financial assets	**14,775**	**14,775**	**8,498**	**8,498**
Total financial assets	**4,050,200**	**4,032,521**	**2,148,589**	**2,163,026**
Financial liabilities				
Due to other banks	**-**	**-**	**25,798**	**25,798**
Customer accounts	**3,670,396**	**3,706,655**	**1,877,356**	**1,883,465**
Current accounts of individuals	335,016	335,016	212,032	212,032
Current accounts of legal entities	704,876	704,876	424,221	424,221
Savings accounts of individuals	418,422	418,422	363,658	363,658
Savings accounts of legal entities	188,943	188,943	75,216	75,216
Term deposits of individuals	1,348,066	1,384,325	772,677	778,786
Term deposits of legal entities	441,753	441,753	29,552	29,552
Other liabilities to customers	233,320	233,320	-	-
Other borrowed funds	**182,665**	**182,462**	**156,264**	**156,496**
Debt securities in issue	**21,050**	**21,064**	**21,040**	**20,198**
Subordinated debt	**159,772**	**159,772**	**48,327**	**54,826**
Other financial liabilities	**27,462**	**27,462**	**14,584**	**14,584**
Total financial liabilities	**4,061,345**	**4,097,415**	**2,143,369**	**2,155,367**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an n orderly transaction between market participants at the measurement date.

The best evidence of fair value is the price at which a financial instrument is quoted in an active market. Where quoted market prices are not available, the Bank used valuation techniques. As disclosed in Note 7, generally valuation techniques used by the Bank do not require significant assumptions that would not be supported by observable market data.

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

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Discount rates used depend on currency, maturity of the instrument, credit risk of the counterparty and were as follows:

	2014	2013
Due from other banks	N/a	0.01% - 0.2% p.a.
Loans and advances to customers		
Business loans	10% - 21% p.a.	0.5% - 19% p.a.
Agricultural loans	10% - 21% p.a.	8% - 20% p.a.
Housing improvement loans	10% - 21% p.a.	16% - 30% p.a.
Finance leases	21% p.a.	20% p.a.
Consumer loans	10% - 21% p.a.	3.0% - 30% p.a.
Other loans	10% - 21% p.a.	8% - 20% p.a.
Other financial assets	N/a	N/a
Due to other banks	N/a	N/a
Customer accounts		
Current accounts of private individuals	N/a	N/a
Current accounts of legal entities	N/a	N/a
Savings accounts of private individuals	N/a	N/a
Savings accounts of legal entities	N/a	N/a
Term deposits of private individuals	6.26% - 20.62% p.a.	0.5% - 18.1% p.a.
Term deposits of legal entities	6.26% - 20.62% p.a.	3.0% - 17.5% p.a.
Other liabilities to customers	N/a	N/a
Other borrowed funds	2.00% - 5.6% p.a.	4.08% - 8.0% p.a.
Debt securities in issue	20% p.a.	18% p.a.
Subordinated debt	8.50% p.a.	4.33% p.a.
Other financial liabilities	N/a	N/a

58) Contingencies and Commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice, Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation

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

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities, inability to recover recognised deferred tax assets and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Bank's financial position, results of operations and cash flows.

Management of the Bank considers that there is a risk of accrual of income tax in amount of UAH 2,448 thousands in respect of transactions for the sale of non-performing loan portfolio and the risk of charging VAT at UAH 5,586 thousands regarding transactions of sale of collateral . However, management believes that its interpretation of applicable law is sound, and that the position of the Bank with respect to taxation will be sustained.

Transfer pricing.

On 1 September 2013 the Law "On Amendments to the Tax Code of Ukraine (Regarding Transfer Pricing)" came into force (the "TP Law"). The TP Law introduces special TP reporting that must be filed with the tax authorities by 1 May 2015. Additionally, the tax authorities are entitled to request transfer pricing documentation about controlled transactions. The taxpayers must provide such documentation within one month of receiving this request.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

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

Operating lease commitments
The future minimum lease payments under non-cancellable operating leases according to the agreements for renting the buildings and spaces for ATMs location are as follows:

	2014	**2013**
Not later than 1 year	33,189	27,270
Later than 1 year and not later than 5 years	43,941	37,400
Later than 5 years	979	4,365
Total	**78,109**	**69,035**

Compliance with covenants

The Bank is subject to certain covenants relating primarily to its other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including an increase in the cost of borrowing and a declaration of default.

There are financial covenants under agreements with the International Financial Corporation (IFC) and Kreditanstalt für Wiederaufbau (KfW). In particular, the Bank is required to maintain a certain level of:
- risk weighted capital adequacy ratio
- liquid assets to short-term liabilities ratio
- fixed assets to capital ratio
- maximum exposure to a single party to capital ratio
- open credit exposure ratio
- portfolio at risk
- related party exposure ratio
- maturity gap to capital ratio
- maturity gap ratio
- group exposure ratio
- interest rate risk ratio
- open foreign currency position.

As at 31 December 2014, the Bank was not in breach of any financial covenants on the borrowings.

All of the other borrowed funds are expected to be repaid according to their contractually agreed schedules. Refer to Note 47.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

Outstanding credit-related commitments are as follows:

	2014	**2013**
Import letters of credit	-	565
Guarantees issued	3,802	3,230
Performance bonds	1,326	923
Total credit-related commitments	**5,128**	**4,718**

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. In addition, as at 31 December 2014, cash deposits of UAH 974 thousand (2013: UAH 1,186 thousand) were held as collateral for irrevocable commitments under guarantees issued. For the amount of provisions for commitments and contingencies credit risk refer to Note 48.

Credit related commitments are denominated in currencies as follows:

	2014	**2013**
Ukrainian Hryvnia	1,346	1,923
Euros	3,782	2,795
Total	**5,128**	**4,718**

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to the loss of an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

As at 31 December 2014, all commitments to extend credit are revocable and amounted to UAH 282,379 thousand (2013: all revocable and amounted to UAH 144,880 thousand).

Assets pledged and restricted

As at 31 December 2014 the Bank had pledged debt securities indexed to the US dollar with carrying value of UAH 30,006 thousand (2013: UAH 9,191 thousand) (Note 36) under loan received from German-Ukrainian Fund (Note 47) with carrying value of UAH 31,088 thousand (2013: 9,192 thousand).

59) Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

	Parent company	**Other significant shareholders**	**Entities under common control**	**Key management personnel**
Outstanding balance on corresponding account	-	-	155,082	-
Gross amount of loans and advances to customers (contractual interest rate: 6%)	-	-	-	1,111
Other assets	11	-	68	-
Customer accounts (contractual interest rate: 0%)	-	-	71	1,415
Other borrowed funds (contractual interest rate: USD: 2.5%- 5.6%)	63,951	52,481	-	-
Other liabilities	-	-	2	-
Subordinated debt (contractual interest rate: 8.5%)	159,772	-	-	-

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

	Parent company	**Other significant shareholders**	**Entities under common control**	**Key management personnel**
Interest income	-	-	191	71
Interest expense	(11,792)	(5,328)	-	(35)
Other operating income	127	-	18	-
Administrative and other operating expenses other than key management remuneration	(10,641)	(51)	(18,621)	-
- including management services	(9,215)	-	-	-

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

	Parent company	**Other significant shareholders**	**Entities under common control**	**Key management personnel**
Amounts repaid by related parties during the period	-	-	-	175

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

At 31 December 2013, the outstanding balances with related parties were as follows:

	Parent company	**Other significant shareholders**	**Entities under common control**	**Key management personnel**
Outstanding balance on corresponding account	-	-	32,133	-
Gross amount of loans and advances to customers (contractual interest rate: 10-16.5%)	-	-	-	115
Other assets	933	-	101	-
Customer accounts (contractual interest rate: 0%-0.2%)	-	-	1	156
Other borrowed funds (contractual interest rate: USD: 2.5%- 5.96%; UAH - 14.43%)	190	93,491	-	-
Other liabilities	1,018	-	50	-
Subordinated debt (contractual interest rate: 7.1% - 13.0%)	48,327	-	-	-

The income and expense items with related parties for the year 2013 were as follows:

	Parent company	**Other significant shareholders**	**Entities under common control**	**Key management personnel**
Interest income	-	-	161	13
Interest expense	(5,076)	(6,761)	-	-
Other operating income	70	-	12	-
Administrative and other operating expenses other than key management remuneration	(11,722)	(23)	(8,165)	-
- including management services	(10,169)	-	-	-

Aggregate amounts lent to and repaid by related parties during 2013 were:

	Parent company	**Other significant shareholders**	**Entities under common control**	**Key management personnel**
Amounts repaid by related parties during the period	-	-	-	48

In 2014, the remuneration of key management personnel comprised salaries totalling UAH 4,311 thousand (2013: UAH 5,039 thousand), including social insurance and pension contributions of UAH 366 thousand (2013: UAH 287 thousand).

The vacation accrual related to key management personnel as at 31 December 2014 was UAH 451 thousand (2013: UAH 297 thousand).

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

60) Analysis of assets and liabilities by maturity

The following table shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. Information about contractual obligations of the Bank under borrowed funds disclosed in Note 55 "Financial Risks".

	2014			2013		
	Not later than 1 year	**Later than 1 year**	**Total**	**Not later than 1 year**	**Later than 1 year**	**Total**
ASSETS						
Cash and cash equivalents	632,059	-	**632,059**	322,549	-	**322,549**
Mandatory reserves in the National Bank of Ukraine	94,729	-	**94,729**	93,348	-	**93,348**
Financial assets available at fair value through profit or loss	82,486	-	**82,486**	42,916	-	**42,916**
Loans and advances to customers	1,579,649	1,823,717	**3,403,366**	957,509	860,033	**1,817,542**
Investment securities available-for-sale	-	567	**567**	-	432	**432**
Current income tax asset	3,032	-	**3,032**	1,038	-	**1,038**
Deferred income tax asset	-	10,806	**10,806**	-	17,462	**17,462**
Premises and equipment	-	79,028	**79,028**	-	77,201	**77,201**
Intangible assets	-	9,157	**9,157**	-	9,505	**9,505**
Investment property	-	12,633	**12,633**	-	13,453	**13,453**
Other financial assets	-	14,775	**14,775**	-	8,498	**8,498**
Other non-financial assets	65,610	-	**65,610**	57,212	-	**57,212**
Total assets	**2,457,565**	**1,950,683**	**4,408,248**	**1,474,572**	**986,584**	**2,461,156**
LIABILITIES						
Due to other banks	-	-	**-**	25,798	-	**25,798**
Customer accounts	3,656,576	13,820	**3,670,396**	1,863,533	13,823	**1,877,356**
Debt securities in issue	21,050	-	**21,050**	-	21,040	**21,040**
Other borrowed funds	88,006	94,659	**182,665**	102,638	53,626	**156,264**
Other financial liabilities	27,462	-	**27,462**	14,584	-	**14,584**
Other non-financial liabilities	2,206	-	**2,206**	1,798	-	**1,798**
Current income tax liabilities	-	-	**-**	7,287	-	**7,287**
Subordinated debt	1,456	158,316	**159,772**	49	48,278	**48,327**
Total liabilities	**3,796,756**	**266,795**	**4,063,551**	**2,015,687**	**136,767**	**2,152,454**
Net position	**(1,339,191)**	**1,683,888**	**344,697**	**(541,115)**	**849,817**	**308,702**

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. Customer accounts with maturity up to one year include short-term deposits which usually are extended for the same term at maturity date, while the number of such prolongations is not limited.

(in thousands of Ukrainian Hryvnia, unless otherwise stated)

61) Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (FVTPL). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2014:

	Loans and receivables	**Available-for-sale assets**	**Assets at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	632,059	-	-	**632,059**
Mandatory reserves in the National Bank of Ukraine	94,729	-	-	**94,729**
Financial assets available at fair value through profit or loss	-	-	82,486	**82,486**
Loans and advances to customers	3,403,366	**-**	**-**	**3,403,366**
Business loans	2,354,918	-	-	**2,354,918**
Agricultural loans	997,855	-	-	**997,855**
Housing improvement loans	212	-	-	**212**
Finance leases	19,010	-	-	**19,010**
Consumer loans	19,052	-	-	**19,052**
Other loans	12,319	-	-	**12,319**
Investment securities available-for-sale	-	567	-	**567**
Other financial assets	14,775	-	-	**14,775**
Total financial assets	**4,144,929**	**567**	**82,486**	**4,227,982**
Non-financial assets				**180,266**
Total assets				**4,408,248**

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

	Loans and receivables	**Available-for-sale assets**	**Assets at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	322,549	-	-	**322,549**
Mandatory reserves in the National Bank of Ukraine	93,348	-	-	**93,348**
Financial assets available at fair value through profit or loss	-	-	42,916	**42,916**
Loans and advances to customers	1,817,542	-	-	**1,817,542**
Business loans	1,394,222	-	-	**1,394,222**
Agricultural loans	379,397	-	-	**379,397**
Housing improvement loans	5,318	-	-	**5,318**
Finance leases	14,908	-	-	**14,908**
Consumer loans	13,221	-	-	**13,221**
Other loans	10,476	-	-	**10,476**
Investment securities available-for-sale	-	432	-	**432**
Other financial assets	8,498	-	-	**8,498**
Total financial assets	**2,241,937**	**432**	**42,916**	**2,285,285**
Non-financial assets				**175,871**
Total assets				**2,461,156**

As at 31 December 2014 and 31 December 2013, all of the Bank's financial liabilities were carried at amortised cost.

62) Events after reporting period

During 2015 the National Bank of Ukraine increased annual discount rate twice, at 6 February 2015 to 19.5% and at 4 March 2015 to 30%.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer