KREDOBANK Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor’s Report

31 December 2014

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of Kredobank Group:

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Kredobank" and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 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 your attention to Notes 2 and 37 to the consolidated financial statements. The operations of the Group, and those of other entities in Ukraine, have been affected and may continue to be affected for the foreseeable future by the continuing political and economic uncertainties in Ukraine. Our opinion is not qualified in respect of this matter.

LLC AF PricewaterhouseCoopers (Audit)

24 March 2015
Kyiv, Ukraine

Director – Member of the Board, L. S. Pakhucha
Bank Auditor Certificate No 0025,
Issued by the Chamber of Auditors of Ukraine,
effective till 1 January 2020

In thousands of Ukrainian hryvnias	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents and mandatory reserves	7	500,996	366,034
Securities at fair value through profit or loss	8	117,967	68,992
Due from other banks	9	6,454	7,378
Loans and advances to customers	10	3,095,396	2,366,212
Investment securities available for sale	11	809,288	685,610
Investment securities held to maturity	12	859,398	102,549
Current income tax prepayment		38,186	2,024
Deferred income tax asset	28	45,232	17,146
Investment property	13	8,928	15,536
Intangible assets	14	48,484	71,276
Premises, leasehold improvements and equipment	14	424,736	460,561
Other financial assets	15	15,168	13,788
Other non-financial assets	16	43,218	39,589
Non-current assets held for sale		1,451	-
TOTAL ASSETS		**6,014,902**	**4,216,695**
LIABILITIES			
Due to other banks	17	1,500,790	577,787
Customer accounts	18	3,611,697	2,788,022
Current income tax liability	28	-	45,116
Other financial liabilities	19	24,015	15,063
Other non-financial liabilities	20	32,180	19,204
Subordinated debt	21	586,886	290,152
TOTAL LIABILITIES		**5,755,568**	**3,735,344**
EQUITY			
Share capital	22	1,918,969	1,918,969
Accumulated deficit		(1,798,550)	(1,592,678)
Revaluation reserve for premises		133,430	170,370
Revaluation reserve for investment securities available for sale	23	5,485	(15,310)
TOTAL EQUITY		**259,334**	**481,351**
TOTAL LIABILITIES AND EQUITY		**6,014,902**	**4,216,695**

Approved for issue and signed on behalf of the Management Board on 24 March 2015.

Dmytro Krepak
Chairman of the Management Board

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК» KredoBank 09807862 УКРАЇНА м. ЛЬВІВ

Grzegorz Szatkowski
Vice-President of the Management Board
Chief Financial Officer

Vasyl Lototskiy
Chief Accountant

Responsible employee: I. Vitynska (T: 032 297 23 39)

In thousands of Ukrainian hryvnias	Note	2014	2013
Interest income	24	545,469	419,057
Interest expense	24	(271,852)	(272,494)
Net interest income		**273,617**	**146,563**
Provision for loan impairment	10	(276,143)	(158,454)
Net interest margin after provision for loan impairment		**(2,526)**	**(11,891)**
Fee and commission income	25	208,964	176,901
Fee and commission expense	25	(21,508)	(12,539)
Gains less losses from trading in foreign currencies		58,650	11,623
Foreign exchange translation losses less gains		(198,601)	(2,008)
Gains less losses from securities at fair value through profit or loss		48,956	(1,905)
Gains less losses from investment securities available for sale		3,772	1,442
Impairment of securities available for sale	11	(22,787)	-
Impairment of premises and equipment	14	(12,092)	-
Provision for other financial and non-financial assets	15, 16	(5,214)	(13,829)
Provision for credit related commitments		(496)	(394)
Other operating income	26	18,552	4,408
Gain on initial recognition of the financial instrument	17	38,368	-
Administrative and other operating expenses	27	(430,622)	(331,955)
Loss before tax		**(316,584)**	**(180,147)**
Income tax credit/(expense)	28	31,362	(144,506)
Loss for the year		**(285,222)**	**(324,653)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Investment securities available for sale:			
- Gains less losses arising during the year	23	22,496	(6,082)
- Income tax recorded directly in other comprehensive income	23, 28	(1,701)	(47)
Items that will not be reclassified to profit or loss:			
Revaluation of premises and equipment:			
- Income tax recorded directly in other comprehensive income	23, 28	(579)	-
Other comprehensive income/(loss) for the year		**20,216**	**(6,129)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(265,006)**	**(330,782)**
Loss per share for loss attributable to the owners of the Group, basic and diluted (expressed in UAH per share)	29	(0.0015)	(0.0017)

Approved for issue and signed on behalf of the Management Board on 24 March 2015.

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УКРАЇНА • М. ЛЬВІВ

Responsible employee: I. Vitynska (T: 032 297 23 39)

In thousands of Ukrainian hryvnias	Note	Share capital	Revaluation reserve for investment securities available for sale	Revaluation reserve for premises	Accumulated deficit	Total equity
Balance at 1 January 2013		**1,918,969**	**(9,181)**	**171,663**	**(1,405,917)**	**675,534**
Loss for the year		-	-	-	(324,653)	(324,653)
Other comprehensive loss	23	-	(6,129)	-	-	(6,129)
Total comprehensive loss for 2013		-	(6,129)	-	(324,653)	(330,782)
Transfer of revaluation surplus on premises to accumulated deficit		-	-	(1,293)	1,293	-
Non-repayable financial assistance received from the Group's parent company	32, 36	-	-	-	168,640	168,640
Income tax on non-repayable financial assistance received from the Group's parent company		-	-	-	(32,041)	(32,041)
Balance at 31 December 2013		**1,918,969**	**(15,310)**	**170,370**	**(1,592,678)**	**481,351**
Loss for the year		-	-	-	(285,222)	(285,222)
Other comprehensive income	23	-	20,795	(579)	-	20,216
Total comprehensive loss for 2014		-	20,795	(579)	(285,222)	(265,006)
Transfer of revaluation surplus on premises to accumulated deficit		-	-	(36,361)	36,361	-
Non-repayable financial assistance received from the Group's parent company	32, 36	-	-	-	52,426	52,426
Income tax on non-repayable financial assistance received from the Group's parent company		-	-	-	(9,437)	(9,437)
Balance at 31 December 2014		**1,918,969**	**5,485**	**133,430**	**(1,798,550)**	**259,334**

Approved for issue and signed on behalf of the Management Board on 24 March 2015.

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In thousands of Ukrainian hryvnias	Note	2014	2013
Cash flows from operating activities			
Interest received		478,415	402,786
Interest paid		(256,089)	(262,326)
Fees and commissions received		206,761	175,030
Fees and commissions paid		(21,508)	(12,537)
Income received from trading in foreign currencies		58,650	11,623
Other operating income received		7,037	3,716
Staff costs paid		(174,009)	(152,485)
Administrative and other operating expenses paid		(178,558)	(144,585)
Income tax paid		(89,718)	-
Cash flows from operating activities before changes in operating assets and liabilities		**30,981**	**21,222**
Net increase in securities at fair value through profit or loss		-	(30,932)
Net decrease/(increase) in due from other banks		5,699	(1,642)
Net decrease/(increase) in mandatory deposits with the NBU		36,826	(36,826)
Net increase in loans and advances to customers		(431,990)	(260,207)
Net increase in other financial and non-financial assets		(12,529)	(8,296)
Net increase/(decrease) in due to other banks		310,608	(124,686)
Net increase/(decrease) in customer accounts		249,706	(71,895)
Net increase/(decrease) in other financial and non-financial liabilities		11,339	(16,998)
Net cash from/(used in) operating activities		**200,640**	**(530,260)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(691,350)	(672,655)
Proceeds from disposal and redemption of investment securities available for sale		933,753	514,301
Acquisition of investment securities held to maturity		(4,630,261)	(350,000)
Proceeds from redemption of investment securities held to maturity		4,183,408	370,000
Acquisition of premises and equipment	14	(57,439)	(35,165)
Proceeds from disposal of premises and equipment		63,348	3,207
Acquisition of intangible assets	14	(8,006)	(18,225)
Net cash used in investing activities		**(206,547)**	**(188,537)**
Cash flows from financing activities			
Proceeds from non-repayable financial assistance received from the Group's parent company	32, 36	52,426	168,640
Net cash from financing activities		**52,426**	**168,640**
Effect of exchange rate changes on cash and cash equivalents		**125,269**	**6,071**
Net increase/(decrease) in cash and cash equivalents		**171,788**	**(544,087)**
Cash and cash equivalents at the beginning of the year		329,208	873,295
Cash and cash equivalents at the end of the year	3, 7	**500,996**	**329,208**

Approved for issue and signed on behalf of the Management Board on 24 March 2015.

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Vasyl Lototskiy
Chief Accountant

Responsible employee: I. Vitynska (T: 032 297 23 39)

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for Public Joint Stock Company “Kredobank” (the “Bank”) and its subsidiary - Finance Company "Idea Capital" Limited Liability Company (together the “Group”).

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2014 and 2013 the Bank’s immediate parent company was PKO Bank Polski S.A. (Poland). The Bank is a part of the PKO Bank Polski S.A. Group (“PKO BP S.A. Group”). The largest shareholder of the PKO BP S.A. Group is the State Treasury of Poland.

Principal activity. The Group’s main principal business activity is commercial and retail banking operations within Ukraine. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank, the Bank was re-registered by the National Bank of Ukraine (the “NBU”) on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company “KREDOBANK” in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint Stock Companies.

The Bank operates under licence # 43 issued by the NBU on 11 October 2011 and general license # 43 issued on 11 October 2011, that provide the Bank with the right to conduct bank operations, including currency operations. The Bank also possesses licences for custodial services issued on 10 October 2013 and licences for securities operations issued on 7 November 2012. The Bank participates in the State deposit insurance scheme (registration # 051 dated 19 October 2012), which operates according to the Law of Ukraine “On Individuals Deposits Guarantee Fund” dated 23 February 2012 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (2013: UAH 200 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2014 the Bank has 110 outlets (2013: 1 branch and 130 outlets) within Ukraine.

Registered address and place of business. The Bank’s registered address and place of business is:

78, Saharova Str.
79026 Lviv
Ukraine.

Presentation currency. These financial statements are presented in hryvnias ("UAH"), unless otherwise stated.

2 Operating Environment of the Group

Starting in late 2013 the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to a deterioration of the State’s finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies. The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The National Bank of Ukraine, among other measures, imposed certain restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market.

The political situation in 2014 has also been volatile, with changes in the Ukrainian Parliament and the Presidency. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. This event resulted in significant deterioration of relationships between Ukraine and the Russian Federation.

The political situation in Eastern Ukraine also deteriorated in 2014 resulting in armed conflict and military activity in some parts of Donetsk and Lugansk regions. The armed conflict in the region has put further pressure on relations between Ukraine and the Russian Federation. Escalating political tensions have had an adverse effect on Ukrainian financial markets, resulting in a hampering of ability of Ukrainian companies and banks to obtain funding from the international capital and loan markets. This has contributed to further significant devaluation of Hryvnia against major foreign currencies.

2 Operating Environment of the Group (Continued)

In 2014 the Group closed its branches located in the Autonomous Republic of Crimea and discontinued its operations in territories not controlled by the Ukrainian Government (some parts of Donetsk and Lugansk regions). During 2014 the Group sold its premises in Crimea for cash consideration in the amount of UAH 21,125 thousand (including VAT). In addition, the Group recognised impairment of the construction-in-progress items located in Donetsk and Lugansk regions in the amount of UAH 12,092 thousand.

As at 31 December 2014, the Group's assets related to Crimea and territories in Eastern part of Ukraine not controlled by the Ukrainian Government (some parts of Donetsk and Lugansk regions) were as follows:

- Loans and advances to customers:
  - in Donetsk and Lugansk regions:
    - loan portfolio UAH 109,324 thousand;
    - loan loss provision UAH (70,447) thousand;
    - loan portfolio (after impairment provision) UAH 38,877 thousand;
  - in the Republic of Crimea:
    - loan portfolio UAH 76,699 thousand;
    - loan loss provision UAH (74,806) thousand;
    - loan portfolio (after impairment provision) UAH 1,893 thousand.

Also, as at 31 December 2014 the Group has significant investments in bonds issued by the Ukrainian Government in the amount of UAH 1,715,274 thousand (including UAH 859,398 thousand classified as held to maturity). Redemption of these bonds is dependent upon the availability of State funds. As prescribed by the bond issue prospectuses, the following Ukrainian Government bonds are redeemable in 2015: bonds held to maturity with the carrying amount of UAH 580,987 thousand and bonds available for sale with the carrying amount of UAH 488,618 thousand. In January-February 2015, the Group duly received the scheduled payments on Ukrainian Government bonds in the amount of UAH 433,424 thousand. Refer to Note 34 for the disclosure of the fair value of Ukrainian Government bonds.

As at 31 December 2014, the official NBU exchange rate of Hryvnia against US dollar was UAH 15.77 per USD 1 compared to UAH 7.99 per USD 1 as at 31 December 2013. Refer to Note 37 for disclosure of exchange rate fluctuations during 2015.

During 2014 real GDP fell by 7.5%. In December 2014 S&P lowered long-term foreign currency sovereign credit rating of Ukraine to "CCC-" from "CCC" (negative outlook). Actual inflation for 2014 equalled 24.9%. EBRD forecasts that Ukrainian GDP falls down in 2015 by 5%.

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further severe effects on the Ukrainian economy and the Group's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. 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 periods presented, unless otherwise stated (refer to Note 5).

Going concern. Management prepared these financial statements on a going concern basis. Refer to Note 4 for factors considered by management in assessing the Group's ability to continue as a going concern.

3 Summary of Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Group and placing orders to sell the position in a single transaction might affect the quoted price.

3 Summary of Significant Accounting Policies (Continued)

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Summary of Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired, or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets, or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the NBU. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits placed on a separate account with the NBU which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from securities at fair value through profit or loss in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- changes to contract with borrower in respect of extension of maturity, changes in payment schedule and other changes to initial contractual terms in order to avoid worsening of the borrower's solvency.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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 and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Group enters into credit related commitments, including commitments to extend loans, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year.

Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. 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 profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

3 Summary of Significant Accounting Policies (Continued)

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The fair value of the Group's investment property as at 31 December 2014 was determined by the internal valuer who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

In 2012 the Group changed its accounting policy in respect of measurement of the value of own buildings included in group "Premises and leasehold improvements" after recognition. Starting from 2012, land and buildings are recorded under the revaluation model. At the date of revaluation accumulated depreciation of buildings was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Buildings held by the Group are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for land and buildings included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

Market value of the Group's buildings was measured as at 31 December 2014. The valuation was carried out by the internal valuer who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value.

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

3 Summary of Significant Accounting Policies (Continued)

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements 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 profit or loss for the year. 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 profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. 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:

	Useful lives in years
Premises	70
Furniture and fixtures	5-15
Motor vehicles	7
Computers and equipment	5-15
Leasehold improvements	over the term of the underlying lease

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years (2013: 20 years).

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Group's default, would be secondary to the Group's primary debt obligations. Subordinated debt is carried at amortized cost.

Derivative financial instruments. Derivative financial instruments, including currency swaps are carried at their fair value.

3 Summary of Significant Accounting Policies (Continued)

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract. If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the entire hybrid contract is designated as at fair value through profit or loss.

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

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. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet 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 end of the reporting period 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.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by 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 end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are 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. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Group's functional and presentation currency is the national currency of Ukraine, hryvnias ("UAH").

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2014	**31 December 2013**
	UAH	**UAH**
1 US dollar (USD)	15.7686	7.993
1 euro (EUR)	19.2329	11.04153
1 Russian Rouble (RUR)	0.3030	0.24497

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Staff costs and related contributions. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

3 Summary of Significant Accounting Policies (Continued)

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of the Group being the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately in these financial statements based on the ultimate domicile of the counterparty. The ultimate domicile and the actual place of business of the counterparties generally coincide.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period.

	31 December 2014			**31 December 2013**		
	Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
In thousands of hryvnias	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS						
Cash and cash equivalents and mandatory reserves	500,996	-	500,996	366,034	-	366,034
Securities at fair value through profit or loss	2,988	114,979	117,967	2,927	66,065	68,992
Due from other banks	6,454	-	6,454	7,378	-	7,378
Loans and advances to customers	1,538,416	1,556,980	3,095,396	621,611	1,744,601	2,366,212
Investment securities available for sale	560,057	249,231	809,288	293,484	392,126	685,610
Investment securities held to maturity	580,987	278,411	859,398	49,417	53,132	102,549
Current income tax prepayment	-	38,186	38,186	2,024	-	2,024
Deferred income tax asset	-	45,232	45,232	-	17,146	17,146
Investment property	-	8,928	8,928	-	15,536	15,536
Intangible assets	-	48,484	48,484	-	71,276	71,276
Premises, leasehold improvements and equipment	-	424,736	424,736	-	460,561	460,561
Other financial assets	14,879	289	15,168	13,713	75	13,788
Other non-financial assets	40,713	2,505	43,218	32,433	7,156	39,589
Non-current assets held for sale	1,451	-	1,451	-	-	-
TOTAL ASSETS	**3,246,941**	**2,767,961**	**6,014,902**	**1,389,021**	**2,827,674**	**4,216,695**

3 Summary of Significant Accounting Policies (Continued)

	31 December 2014			31 December 2013		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In thousands of hryvnias	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
LIABILITIES						
Due to other banks	687,556	813,234	1,500,790	159,425	418,362	577,787
Customer accounts	3,547,883	63,814	3,611,697	2,622,296	165,726	2,788,022
Current income tax liability	-	-	-	45,116	-	45,116
Other financial liabilities	23,714	301	24,015	14,887	176	15,063
Other non-financial liabilities	32,164	16	32,180	19,188	16	19,204
Subordinated debt	737	586,149	586,886	-	290,152	290,152
TOTAL LIABILITIES	**4,292,054**	**1,463,514**	**5,755,568**	**2,860,912**	**874,432**	**3,735,344**

Changes in accounting estimates. In 2014, the Group revised useful lives of its intangible assets to 10 years (2013: 20 years). Management believes that the revised useful lives provide a more accurate estimate of the expected period of time for the Group to use its computer software. The effect of the change in the accounting estimates was to increase amortisation charge of computer software for the reporting period by UAH 9,918 thousand.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, continuing financial support from the parent company, budgeted profitability of future operations and access to financial resources and analysed the impact of the current financial and economic situation on future operations of the Group.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available for sale. The investments would, therefore, be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would increase by UAH 14,105 thousand (2013: decrease by UAH 826 thousand), with a corresponding entry in other comprehensive income.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 968 thousand (31 December 2013: UAH 412 thousand) higher or UAH 272 thousand (31 December 2013: UAH 193 thousand) lower.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of UAH 36,408 thousand or a decrease in loan impairment losses of UAH 42,839 thousand (2013: an increase of UAH 30,186 thousand or a decrease of UAH 22,604 thousand), respectively.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

Initial recognition of related party transactions. In the normal course of business the Group 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. Terms and conditions of related party balances are disclosed in Note 36.

Classification of income and expense on transactions with the parent company. Management applies judgement to determine whether income and expenses arising from transactions with the parent company should be recognised in the statement of changes in equity as transactions with shareholders in respect of capital contributions and distributions or in the income statement as results from operations. The basis for judgement is requirements of applicable accounting standards and economic substance of transaction.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management's expectations that are believed to be reasonable under the circumstances. The Group is expected to generate the sustainable profits in the future. Key assumptions in the business plan include expected stabilisation in the economy of Ukraine, gradual decline in interest rates (on loans and funding), moderate growth in loan portfolio, reduced loan loss provisions due to the expected improvement in economy and further enhancement of cost control. Taking into account planned future profits and the fact that current Ukrainian tax legislation does not place limits on the term of utilisation of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Valuation of own use premises. As stated in Note 3, buildings held by the Group are subject to revaluation on a regular basis. The valuation was carried out by the internal valuer who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The valuation was based on a comparative sales method. When performing the valuation, certain judgements and estimates were applied in determining the comparable premises to be used in a sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The price per square meter used in valuation varied from UAH 4,104 to UAH 22,869 for buildings depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value would be UAH 16,936 thousand higher or UAH 16,936 thousand lower for buildings.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off 1) must not be contingent on a future event and 2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy. The amended standard did not have material impact on the Group's financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have material impact on the Group's financial statements.

The following other new standards and interpretations that have no material impact on the Group's financial statements became effective:

Amendments to IFRS 10, IFRS 12 and IAS 27 - "Investment Entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014);

Amendments to IAS 36 – "Recoverable Amount Disclosures for Non-financial Assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period);

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

6 New Accounting Pronouncements (Continued)

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

6 New Accounting Pronouncements (Continued)

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Group is currently assessing the impact of the amendments on its financial statements.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). 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. The Group is currently assessing the impact of the amendments on its financial statements.

The following other new standards and interpretations are not expected to have any impact on the Group when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

7 Cash and Cash Equivalents and Mandatory Reserves

In thousands of hryvnias	2014	2013
Cash on hand	177,306	155,697
Cash balances with the NBU	164,401	65,965
Mandatory restricted cash balances with the NBU	-	36,826
Correspondent accounts with other banks	139,262	107,546
Placements with other banks with original maturities of less than three months	20,027	-
Total cash and cash equivalents and mandatory reserves	**500,996**	**366,034**

As at 31 December 2014, mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (2013: simple average over a monthly period) and is required to be maintained at the level of 3 to 6.5 per cent (2013: 0 to 15 per cent) of certain obligations of the Group in a hryvnia equivalent. As such, the balance can vary from day-to-day. The Group's mandatory reserve balance with the NBU as at 31 December 2014 was UAH 174,868 thousand (2013: UAH 91,495 thousand). The Group may satisfy its mandatory reserve requirement with Treasury bills nominated in US dollars in the amount of 10% of their nominal value (2013: Treasury bills nominated in US dollars in the amount of 10% of their nominal value and a deposit placed on a separate account with the NBU).

As at 31 December 2013 the Group had to deposit on separate account with the NBU the amount of 40% of mandatory reserve balance for the preceding month excluding amount covered by the Treasury bills nominated in US dollars. This requirement was cancelled in 2014.

As the respective liquid assets were not available to finance the Group's day-to-day operations, for the purposes of the cash flow statement the mandatory reserve balance kept on a separate account with the NBU was excluded from cash and cash equivalents. As at 31 December 2014 cash and cash equivalents for the purposes of the statement of cash flows were UAH 500,996 thousand (31 December 2013: UAH 329,208 thousand).

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

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2014:

In thousands of hryvnias	Cash balances with the NBU	Correspondent accounts with other banks	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired				
- National Bank of Ukraine	164,401	-	-	164,401
- Aaa – Aa3 rated	-	62,262	-	62,262
- A1 - A3 rated	-	36,987	-	36,987
- Baa1 - Baa3 rated	-	13,801	-	13,801
- Ba1 - Ba3 rated	-	16,696	-	16,696
- B1 – B3 rated	-	781	-	781
- Lower than Caa1 rated	-	1,515	-	1,515
- Unrated	-	7,220	20,027	27,247
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	**164,401**	**139,262**	**20,027**	**323,690**

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2013:

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

In thousands of hryvnias	Cash balances with the NBU, including mandatory reserves	Correspondent accounts with other banks	Total
Neither past due nor impaired			
- National Bank of Ukraine	102,791	-	102,791
- Aaa – Aa3 rated	-	59,972	59,972
- A1 - A3 rated	-	25,589	25,589
- Baa1 - Baa3 rated	-	9,397	9,397
- Ba1 - Ba3 rated	-	200	200
- B1 – B3 rated	-	4,110	4,110
- Lower than Caa1 rated	-	7,609	7,609
- Unrated	-	669	669
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	**102,791**	**107,546**	**210,337**

8 Securities at Fair Value through Profit or Loss

In thousands of hryvnias	2014	2013
Ukrainian government bonds	117,967	68,992
Total debt securities	117,967	68,992
Total securities at fair value through profit or loss	**117,967**	**68,992**

Debt securities, designated into this category are represented by indexed Treasury bills. The redemption value of these bonds depends on changes in weighted average UAH/USD exchange rate on interbank foreign exchange market between the month preceding the issue date and the month preceding the redemption date. This feature represents an embedded derivative which was not separated from the host contract as the financial instrument as a whole is accounted for at fair value through profit or loss.

The Group irrevocably designates the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification at fair value through profit or loss because the Group's management assesses performance of the investments based on their fair values in accordance with a documented investment strategy.

Securities designated at fair value through profit or loss are carried at fair value, which also reflects any credit risk related write-downs. As the securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2014 is as follows:

In thousands of hryvnias	Ukrainian government bonds	Total
Neither past due nor impaired (at fair value)		
- CCC- rated	117,967	117,967
Total debt securities at fair value through profit or loss	**117,967**	**117,967**

The credit ratings are based on Ukraine's sovereign rating assigned by Standart&Poor's.

Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2013 is as follows:

8 Securities at Fair Value through Profit or Loss (Continued)

In thousands of hryvnias	Ukrainian government bonds	Total
Neither past due nor impaired (at fair value)		
- B- rated	68,992	68,992
Total debt securities at fair value through profit or loss	**68,992**	**68,992**

The credit ratings are based on Ukraine's sovereign rating assigned by Standart&Poor's.

The debt securities are not collateralised.

Interest rate analysis of securities at fair value through profit or loss are disclosed in Note 31.

9 Due from Other Banks

In thousands of hryvnias	2014	2013
Guarantee deposits	6,454	7,378
Total due from other banks	**6,454**	**7,378**

As at 31 December 2014 guarantee deposits include UAH 6,454 thousand (31 December 2013: UAH 7,378 thousand) due from four Ukrainian banks and one Russian bank placed as guarantee deposits for card settlements and transfers. Such placements are normally non-interest bearing.

Amounts due from other banks are not collateralised. The credit quality of due from other banks outstanding at 31 December 2014 may be summarised based on Moody's ratings as follows:

In thousands of hryvnias	Guarantee deposits	Total
Neither past due nor impaired		
- Ca rated	6,368	6,368
- Unrated	86	86
Total due from other banks	**6,454**	**6,454**

The credit quality of due from other banks outstanding at 31 December 2013 may be summarised as follows:

In thousands of hryvnias	Guarantee deposits	Total
Neither past due nor impaired		
- Caa2 rated	7,325	7,325
- Unrated	53	53
Total due from other banks	**7,378**	**7,378**

Refer to Note 34 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 31.

10 Loans and Advances to Customers

In thousands of hryvnias	2014	2013
Corporate loans	2,308,854	1,707,200
Loans to individuals - consumer loans	828,466	593,993
Loans to individuals - mortgage loans	519,261	396,832
Reverse sale and repurchase agreements	35,079	-
Less: Provision for loan impairment	(596,264)	(331,813)
Total loans and advances to customers	**3,095,396**	**2,366,212**

As at 31 December 2014 loans and advances to customers in the amount of UAH 70,498 thousand (31 December 2013: UAH 39,694 thousand) were collateralised by customer deposits in the amount of UAH 111,772 thousand (31 December 2013: UAH 71,371 thousand). Refer to Note 18.

During 2014 the Group derecognised outstanding loans as a result of forgiveness and sale to unrelated parties of a fixed rate portfolio with the gross amount before provision for impairment of UAH 4,623 thousand (2013: UAH 52,890 thousand) and the carrying value of UAH 1,449 thousand (2013: UAH 29,177 thousand). As a result of this transaction, the Group recognised net loss of UAH 1,366 thousand (2013: UAH 2,607 thousand).

As at 31 December 2014, the amount of guarantee deposits received from PKO BP S.A. is UAH 185,123 thousand (31 December 2013: UAH 59,306 thousand) and the amount of loans and advances to customers which are collateralised by these deposits is equal to UAH 162,110 thousand (31 December 2013: UAH 76,675 thousand).

Movements in the provision for loan impairment during 2014 are as follows:

In thousands of hryvnias	Corporate loans	Consumer loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2014	**228,123**	**33,200**	**70,490**	**331,813**
Provision for impairment during the year	134,604	85,961	64,813	285,378
Loans and advances to customers sold and forgiven during the year	(2,839)	(762)	(939)	(4,540)
Amounts written off during the year as uncollectible	(39,685)	(15,632)	(6,421)	(61,738)
Translation differences	16,478	4,148	24,725	45,351
Provision for loan impairment at 31 December 2014	**336,681**	**106,915**	**152,668**	**596,264**

The provision for loan impairment for the year ended 31 December 2014 differs from the amount recognised in profit or loss for the year due to recovery of loans in the total amount of UAH 9,235 thousand written off during 2014 as uncollectible. This amount was directly recorded as the release of the provision in profit or loss for the year.

The amount of movement in the provision shown in the table above in respect of loans sold during the year includes the amount of the provision reversed and loss incurred as a result of the sale.

Movements in the provision for loan impairment during 2013 are as follows:

In thousands of hryvnias	Corporate loans	Consumer loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2013	**130,882**	**25,708**	**59,991**	**216,581**
Provision for impairment during the year	138,848	7,919	11,687	158,454
Loans and advances to customers sold and forgiven during the year	(24,456)	(440)	(1,424)	(26,320)
Amounts written off during the year as uncollectible	(18,146)	-	-	(18,146)
Translation differences	995	13	236	1,244
Provision for loan impairment at 31 December 2013	**228,123**	**33,200**	**70,490**	**331,813**

10 Loans and Advances to Customers (Continued)

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

	2014		2013	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	1,347,727	36	990,825	37
Manufacturing	705,386	19	477,713	18
Agriculture and food processing	554,365	15	295,877	11
Trade	507,130	14	437,031	16
Other services	132,951	4	87,973	3
Health resorts	110,580	3	103,422	4
Real estate and construction	101,983	3	106,138	4
Sports and recreation services	101,910	3	105,671	4
Transportation	51,809	1	65,559	2
Financial services	49,187	1	3,474	0
Mining	22,383	1	19,681	1
Hotels	1,119	0	1,072	0
Other	5,130	0	3,589	0
Total loans and advances to customers (before impairment)	**3,691,660**	**100**	**2,698,025**	**100**

At 31 December 2014, total aggregate amount of loans of top 10 borrowers of the Group was UAH 750,606 thousand (31 December 2013: UAH 497,752 thousand), or 21% of the gross loan portfolio (31 December 2013: 18% of the gross loan portfolio).

Information about collateral at 31 December 2014 is as follows:

In thousands of hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Unsecured loans	219,954	143,133	88,307	-	451,394
Loans collateralised by:					
- cash deposits	228,425	4,183	-	-	232,608
- residential real estate	46,991	188	343,715	-	390,894
- other real estate	1 237 052	25	83,411	-	1,320,488
- other assets	576 432	6 80 937	3,828	35,079	1,296,276
Total loans and advances to customers (before impairment)	**2 308 854**	**828 466**	**519,261**	**35,079**	**3,691,660**

Information about collateral at 31 December 2013 is as follows:

In thousands of hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Total**
Unsecured loans	**165,044**	**84,876**	**50,680**	**300,600**
Loans collateralised by:				
- cash deposits	95,058	3,409	533	99,000
- residential real estate	44,104	72	264,028	308,204
- other real estate	940,538	361	77,896	1,018,795
- other assets	462,456	505,275	3,695	971,426
Total loans and advances to customers (before impairment)	**1,707,200**	**593,993**	**396,832**	**2,698,025**

As at 31 December 2014 and 31 December 2013, the amount of cash deposits in the table above includes deposits pledged as collateral for a number of lending transactions by the Group's parent company PKO BP S.A.

Other assets mainly include equipment, other movable property and property rights for future real estate. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

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

In thousands of hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Neither past due nor impaired					
- High grade	756,177	451,826	92,978	35,079	1,336,060
- Standard grade	569,298	224,265	153,152	-	946,715
- Sub-standard grade	28,820	2,031	8,462	-	39,313
Total neither past due nor impaired	**1,354,295**	**678,122**	**254,592**	**35,079**	**2,322,088**
Past due but not impaired					
- less than 30 days overdue	52,682	4,252	-	-	56,934
- 30 to 90 days overdue	37,475	29,204	15,362	-	82,041
- 91 to 180 days overdue	2,201	655	3,467	-	6,323
- 181 to 360 days overdue	6,797	30	882	-	7,709
- over 360 days overdue	37,353	23	3,141	-	40,517
Total past due but not impaired	**136,508**	**34,164**	**22,852**	**-**	**193,524**
Loans individually and collectively determined to be impaired (gross)					
- not yet past due	291,039	329	38,355	-	329,723
- less than 30 days overdue	38,203	-	-	-	38,203
- 30 to 90 days overdue	25,340	33	6,298	-	31,671
- 91 to 180 days overdue	24,763	33,189	16,810	-	74,762
- 181 to 360 days overdue	45,613	52,549	47,228	-	145,390
- over 360 days overdue	393,093	30,080	133,126	-	556,299
Total individually and collectively impaired loans (gross)	**818,051**	**116,180**	**241,817**	**-**	**1,176,048**
Less: impairment provisions	**(336,681)**	**(106,915)**	**(152,668)**	**-**	**(596,264)**
Total loans and advances to customers	**1,972,173**	**721,551**	**366,593**	**35,079**	**3,095,396**

The Group classifies loans and advances to customers by credit quality in accordance with classification prescribed by the NBU regulations. Current and not impaired loans are split by the Group into the following credit risk categories:

High grade. This category represents loans classified under NBU regulations as loans with low risk. This category includes exposures with insignificant credit risk which is characterised by strong financial position of the borrower and good loan servicing.

Standard grade. This category represents loans classified under NBU regulations as loans with moderate risk. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good repayment history or borrowers with strong financial position and payment history with delays not exceeding 90 days.

Sub-standard loans. This category includes exposures with significant credit risk which is characterised by weak or unsatisfactory financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing.

10 Loans and Advances to Customers (Continued)

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

In thousands of hryvnias	Corporate loans	Consumer loans	Mortgage loans	Total
Neither past due nor impaired				
- High grade	609,092	393,257	97,116	1,099,465
- Standard grade	307,083	137,415	132,451	576,949
- Sub-standard grade	21,861	5,759	8,853	36,473
Total neither past due nor impaired	**938,036**	**536,431**	**238,420**	**1,712,887**
Past due but not impaired				
- less than 30 days overdue	24,828	6,889	4,295	36,012
- 30 to 90 days overdue	18,939	5,980	3,647	28,566
- 91 to 180 days overdue	4,727	54	684	5,465
- 181 to 360 days overdue	74,423	199	2,512	77,134
- over 360 days overdue	1,533	14	2,591	4,138
Total past due but not impaired	**124,450**	**13,136**	**13,729**	**151,315**
Loans individually and collectively determined to be impaired (gross)				
- not yet past due	154,832	377	21,645	176,854
- less than 30 days overdue	34,426	-	-	34,426
- 30 to 90 days overdue	10,250	-	1,731	11,981
- 91 to 180 days overdue	57,647	7,200	13,412	78,259
- 181 to 360 days overdue	240,772	8,354	12,748	261,874
- over 360 days overdue	146,787	28,495	95,147	270,429
Total individually and collectively impaired loans (gross)	**644,714**	**44,426**	**144,683**	**833,823**
Less: impairment provisions	**(228,123)**	**(33,200)**	**(70,490)**	**(331,813)**
Total loans and advances to customers	**1,479,077**	**560,793**	**326,342**	**2,366,212**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

10 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2014:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	1 599 446	3,610,035	372,727	272,932
Mortgage loans	319 736	1,100,097	46,857	28,021
Consumer loans	622 525	1,223,220	99,026	15,899
Reverse sale and repurchase agreements	35,079	35,079	-	-
Total	**2,576,786**	**5,968,431**	**518,610**	**316,852**

The effect of collateral at 31 December 2013:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	1,278,508	3,095,365	200,569	106,946
Mortgage loans	291,080	873,303	35,262	22,877
Consumer loans	436,009	703,364	124,784	59,076
Total	**2,005,597**	**4,672,032**	**360,615**	**188,899**

The fair value of collateral is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. This amount includes possible costs of debt recovery through the foreclosure such as court expenses, disposal costs and other costs related to debt recovery through the foreclosure.

The fair value of real estate properties at the end of the reporting period was measured by the firm of independent valuers engaged by the Group on a contractual basis or by the internal valuer who holds a relevant qualification certificate, which are not related (affiliates, related parties, associates) to the Group according to legislation.

Refer to Note 34 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

11 Investment Securities Available for Sale

In thousands of hryvnias	2014	2013
Ukrainian government bonds	737,909	545,017
Corporate bonds	71,349	140,563
Total debt securities	809,258	685,580
Corporate shares	30	30
Total investment securities available for sale	**809,288**	**685,610**

Analysis by credit quality of debt securities outstanding at 31 December 2014 is as follows:

In thousands of hryvnias	Ukrainian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- Ukrainian government	737,909	-	737,909
- Caa2 rated	-	39,718	39,718
- Unrated	-	29,702	29,702
Total neither past due nor impaired	737,909	69,420	807,329
Impaired			
- Unrated	-	24,716	24,716
Total impaired	**-**	**24,716**	**24,716**
Less: impairment provisions		**(22,787)**	**(22,787)**
Total debt securities available for sale	**737,909**	**71,349**	**809,258**

The above analysis by credit quality is based on ratings assigned by Moody's or Fitch ratings converted to the nearest equivalent on the Moody's rating scale.

As at 31 December 2013, investment securities available for sale in the amount of UAH 24,291 thousand were pledged as collateral for the refinancing loan of UAH 24,226 thousand received from NBU. The refinancing loan was repaid in full as at 31 December 2014.

Analysis by credit quality of debt securities outstanding at 31 December 2013 is as follows:

In thousands of hryvnias	Ukrainian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- Ukrainian government	545,017	-	545,017
- B1 – B3 rated	-	39,303	39,303
- Caa2 rated	-	30,036	30,036
- Unrated	-	71,224	71,224
Total neither past due nor impaired	545,017	140,563	685,580
Total debt securities available for sale	**545,017**	**140,563**	**685,580**

The above analysis by credit analysis is based on ratings assigned by Moody's.

11 Investment Securities Available-for-Sale (Continued)

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. As a result, the Group presents above an ageing analysis of debt securities that are individually determined to be impaired. The debt securities are not collateralised.

Interest rate analysis of investment securities available for sale is disclosed in Note 31.

12 Investment Securities Held to Maturity

In thousands of hryvnias	**2014**	**2013**
Ukrainian government bonds	859,398	72,548
Securities issued by the National Bank of Ukraine	-	30,001
Total investment securities held to maturity	**859,398**	**102,549**

Analysis by credit quality of debt securities classified as held to maturity at 31 December 2014 is as follows:

In thousands of hryvnias	**Government securities**	**Total**
Neither past due nor impaired		
- Ukrainian government	859,398	859,398
Total neither past due nor impaired	**859,398**	**859,398**
Total investment securities held to maturity	**859,398**	**859,398**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. The investment securities are not collateralised.

Refer to Note 34 for the disclosure of the fair value of each class of investment securities. Interest rate analysis of investment securities is disclosed in Note 31.

13 Investment Property

In thousands of hryvnias		**2014**	**2013**
Investment properties at fair value at 1 January		**15,536**	**-**
Transfer from owner-occupied premises	14	-	15,536
Transfer to assets held for sale		(2,429)	-
Disposals		(4,179)	-
Investment properties at fair value at 31 December		**8,928**	**15,536**

As at 31 December 2014 and 31 December 2013, investment properties include commercial premises held by the Group to earn rental income, which were transferred from premises and leasehold improvements during 2013.

Information on income from operating lease is disclosed in Note 26.

14 Premises, Leasehold Improvements, Equipment and Intangible Assets

In thousands of hryvnias	Note	Premises and leasehold improve-ments	Computer and equipment	Furniture and fixtures	Motor vehicles	Construc-tion-in-progress	Total premises, leasehold improve-ments and equipment	Computer software licences	Total
Cost at 1 January 2013		377,712	177,341	78,091	14,479	12,228	659,851	100,541	**760,392**
Accumulated depreciation		(22,222)	(105,742)	(47,154)	(10,144)	-	(185,262)	(39,796)	**(225,058)**
Carrying amount at 1 January 2013		**355,490**	**71,599**	**30,937**	**4,335**	**12,228**	**474,589**	**60,745**	**535,334**
Additions		-	10,914	5,858	3,771	14,622	35,165	18,225	53,390
Transfers		3,531	1,334	(275)	-	(3,531)	1,059	(1,059)	-
Transfer to investment property		(15,536)	-	-	-	-	(15,536)	-	(15,536)
Disposals		(5,418)	(58)	(709)	(186)	-	(6,371)	-	(6,371)
Depreciation charge	27	(8,604)	(13,203)	(5,167)	(1,371)	-	(28,345)	(4,075)	(32,420)
Other		-	-	-	-	-	-	(2,560)	(2,560)
Carrying amount at 31 December 2013		**329,463**	**70,586**	**30,644**	**6,549**	**23,319**	**460,561**	**71,276**	**531,837**
Cost at 31 December 2013		358,128	187,235	81,121	16,046	23,319	665,849	111,243	777,092
Accumulated depreciation		(28,665)	(116,649)	(50,477)	(9,497)	-	(205,288)	(39,967)	(245,255)
Carrying amount at 31 December 2013		**329,463**	**70,586**	**30,644**	**6,549**	**23,319**	**460,561**	**71,276**	**531,837**
Additions		3,156	30,535	15,456	4,237	4,055	57,439	8,006	65,445
Transfers		5,242	1,342	2,050	936	(11,232)	(1,662)	1,662	-
Disposals		(44,514)	(687)	(1,702)	(9)	-	(46,912)	-	(46,912)
Depreciation charge	27	(8,253)	(15,252)	(7,083)	(2,010)	-	(32,598)	(14,076)	(46,674)
Impairment and write-off		-	-	-	-	(12,092)	(12,092)	(18,384)	(30,476)
Carrying amount at 31 December 2014		**285,094**	**86,524**	**39,365**	**9,703**	**4,050**	**424,736**	**48,484**	**473,220**
Cost at 31 December 2014		312,374	212,371	87,500	18,791	4,050	635,086	99,572	734,658
Accumulated depreciation		(27,280)	(125,847)	(48,135)	(9,088)	-	(210,350)	(51,088)	(261,438)
Carrying amount at 31 December 2014		**285,094**	**86,524**	**39,365**	**9,703**	**4,050**	**424,736**	**48,484**	**473,220**

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

14 Premises, Leasehold Improvements, Equipment and Intangible Assets (Continued)

As at 31 December 2014 the cost of fully depreciated equipment that is still in use is UAH 63,581 thousand (31 December 2013: UAH 67,345 thousand) and the cost of fully amortised intangible assets that are still in use is UAH 9,891 thousand (31 December 2013: UAH 6,703 thousand). In 2014, management revised useful lives of the Group's intangible assets and adjusted them to 10 years.

Market value of land and buildings was measured as at 31 December 2014. The valuation was based on a comparative sales method and was carried out by the internal valuer who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value. No revaluation was performed as no material difference was identified between the carrying amount and the market value of buildings as at 31 December 2014.

At 31 December 2014, the carrying amount of premises and leasehold improvements would have been UAH 154,137 thousand (31 December 2013: UAH 161,170 thousand) had the assets been carried at cost less depreciation.

15 Other Financial Assets

In thousands of hryvnias	**2014**	**2013**
Receivables from operations with customers and banks	12,363	14,577
Accrued income receivable	10,579	8,377
Receivables from operations with plastic cards	308	120
Provision for impairment	(8,082)	(9,286)
Total other financial assets	**15,168**	**13,788**

Movements in the provision for impairment of other financial assets during 2014 are as follows:

In thousands of hryvnias	**Accrued income receivable**	**Receivables from operations with customers and banks**	**Total**
Provision for impairment at 1 January 2014	**2,762**	**6,524**	**9,286**
Provision for impairment during the year	3,693	(3,524)	169
Amounts written off during the year as uncollectible	(1,373)	-	(1,373)
Provision for impairment at 31 December 2014	**5,082**	**3,000**	**8,082**

Movements in the provision for impairment of other financial assets during 2013 are as follows:

In thousands of hryvnias	**Accrued income receivable**	**Receivables from operations with customers and banks**	**Total**
Provision for impairment at 1 January 2013	**1,710**	**3,532**	**5,242**
Provision for impairment during the year	1,226	15,786	**17,012**
Amounts written off during the year as uncollectible	(174)	(12,794)	**(12,968)**
Provision for impairment at 31 December 2013	**2,762**	**6,524**	**9,286**

15 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets at 31 December 2014 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Total
Neither past due nor impaired				
- Collected or settled after the end of the reporting period	5,732	9,363	308	**15,403**
Total neither past due nor impaired	**5,732**	**9,363**	**308**	**15,403**
Receivables individually determined to be impaired (gross)				
- less than 30 days overdue	532	-	-	532
- 31 to 90 days overdue	742	-	-	742
- 91 to 180 days overdue	920	-	-	920
- 181 to 360 days overdue	441	-	-	441
- over 360 days overdue	2,212	3,000	-	5,212
Total individually impaired (gross)	4,847	3,000	-	7,847
Less impairment provision	**(5,082)**	**(3,000)**	**-**	**(8,082)**
Total other financial assets	**5,497**	**9,363**	**308**	**15,168**

Analysis by credit quality of other financial assets at 31 December 2013 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Total
Neither past due nor impaired				
- Collected or settled after the end of the reporting period	5,747	6,577	120	**12,444**
Total neither past due nor impaired	**5,747**	**6,577**	**120**	**12,444**
Receivables individually determined to be impaired (gross)				
- less than 30 days overdue	15	8,000	-	8,015
- 31 to 90 days overdue	29	-	-	29
- over 360 days overdue	2,586	-	-	2,586
Total individually impaired (gross)	**2,630**	**8,000**	**-**	**10,630**
Less impairment provision	**(2,762)**	**(6,524)**	**-**	**(9,286)**
Total other financial assets	**5,615**	**8,053**	**120**	**13,788**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables generally are not collateralised.

Information on related party balances is disclosed in Note 36.

16 Other Non-Financial Assets

In thousands of hryvnias	2014	2013
Repossessed collateral	14,432	12,821
Prepaid expenses	13,241	7,035
Prepayments for goods and construction in progress	8,676	9,708
Prepaid taxes other than income tax	4,664	4,139
Prepayment for services	4,210	4,411
Inventory	2,984	2,539
Receivables from settlements with employees and other	1,462	478
Provision for impairment of other non-financial assets	(6,451)	(1,542)
Total other non-financial assets	**43,218**	**39,589**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets were initially recognised at fair value when acquired.

17 Due to Other Banks

In thousands of hryvnias	2014	2013
Correspondent accounts and overnight placements of other banks	474,242	134,496
Term placements and loans from other banks	1,026,548	443,291
Total due to other banks	**1,500,790**	**577,787**

In March and July 2014, the Group subsidiary received a loan from PKO BP SA in the amount of USD 21,319 thousand (UAH 242,556 thousand at the exchange rate at the data of issue) at interest rate of 6-month USD LIBOR + 3% p.a. maturing in 3 years. The Group recognised a gain of UAH 38,368 thousand on initial recognition of the loan at rates below market. Finance expenses for the year ended 31 December 2014 include amortisation of gain from initial recognition of the loan at fair value in the amount of UAH 10,836 thousand.

As at 31 December 2014, term placements and loans include UAH 1,008,101 thousand (31 December 2013: UAH 399,650 thousand) received from PKO BP S.A. and correspondent accounts and overnight placements of other banks include UAH 448,964 thousand (31 December 2013: UAH 125,954 thousand) of balances on accounts of PKO BP S.A.

As at 31 December 2014, term placements and loans include loans of UAH 18,444 thousand (31 December 2013: UAH 19,412 thousand) received from the EBRD for financing loan facilities to customers.

As at 31 December 2013, term placements and loans from other banks include refinancing loan of UAH 24,226 thousand received from NBU and collateralised by securities available for sale. The refinancing loan was repaid in full as at 31 December 2014. Refer to Note 11.

Refer to Note 34 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

18 Customer Accounts

In thousands of hryvnias	2014	2013
Legal entities		
- Current/settlement accounts	1,311,254	595,298
- Term deposits	350,264	350,787
Individuals		
- Current/demand accounts	411,390	330,784
- Term deposits	1,538,789	1,511,153
Total customer accounts	**3,611,697**	**2,788,022**

Economic sector concentrations within customer accounts are as follows:

	2014		2013	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	1,950,179	54	1,841,937	66
Manufacturing	392,318	11	184,435	7
Trade	308,513	9	228,470	8
Financial services	246,652	7	171,411	6
Other services	234,507	6	151,982	5
Real estate	77,566	2	49,277	2
Transport and communication	48,352	1	23,124	1
Agriculture	37,049	1	26,852	1
Other	316,561	9	110,534	4
Total customer accounts	**3,611,697**	**100**	**2,788,022**	**100**

As at 31 December 2014, the Group had 30 customers (31 December 2013: 22 customers) with balances above UAH 10,000 thousand. The aggregate balance on accounts of these customers was UAH 583,793 thousand (31 December 2013: UAH 379,179 thousand) or 16% (31 December 2013: 14%) of total customer accounts.

As at 31 December 2014, included in customer accounts are deposits of UAH 3,415 thousand (31 December 2013: UAH 9,913 thousand) held as collateral for guarantees issued. Refer to Note 33.

As at 31 December 2014, included in customer accounts are deposits totalling UAH 111,772 thousand (31 December 2013: UAH 71,371 thousand) held as collateral for loans granted to customers totalling UAH 70,498 thousand (31 December 2013: UAH 39,694 thousand). Refer to Note 10.

Refer to Note 34 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

19 Other Financial Liabilities

Other financial liabilities comprise of the following:

In thousands of hryvnias	Note	2014	2013
Funds in settlements		11,455	5,501
Other accrued liabilities		10,572	8,281
Provision for credit related commitments	33	996	499
Other		992	782
Total other financial liabilities		**24,015**	**15,063**

Provision for credit related commitments represents specific provisions created for losses incurred on financial guarantees and letters of credit provided to borrowers whose financial conditions deteriorated.

Refer to Note 34 for disclosure of the fair value of each class of other financial liabilities.

20 Other Non-Financial Liabilities

Other non-financial liabilities comprise the following:

In thousands of hryvnias	2014	2013
Accrued employee benefit costs	15,136	10,552
Taxes payable other than on income	11,226	539
Amounts payable to Individuals' Deposits Guarantee Fund	2,964	3,327
Other	2,854	4,786
Total other non-financial liabilities	**32,180**	**19,204**

21 Subordinated Debt

In thousands of hryvnias	Effective interest rate 2014	Carrying value 2014	Carrying value 2013
USD 20,000, floating rate, due in 2017	2.54%	335,203	165,753
USD 15,000, floating rate, due in 2018	2.59%	251,683	124,399
Total subordinated debt		**586,886**	**290,152**

During 2009 the Group received from PKO BP S.A. subordinated debt in the amount of USD 20,000 thousand (UAH 159,806 thousand at the exchange rate at the date of receipt) at interest rate of 1-month LIBOR+6.5% p.a. The agreement was registered by the National Bank of Ukraine on 9 November 2009. The debt matures on 6 November 2017.

During 2010 the Group received from PKO BP S.A. subordinated debt in the amount of USD 15,000 thousand (UAH 120,140 thousand at the exchange rate at the date of receipt) at interest rate of 1-month LIBOR+6.5% p.a. The agreement was registered by the National Bank of Ukraine on 9 February 2010. The debt matures on 5 February 2018.

21 Subordinated Debt (Continued)

On 18 May 2010, the interest rate on both loans was changed to 1-month LIBOR + 3.75% p.a. This represented substantial change in terms of the original financial liability and was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The Group considered that revised terms of subordinated debt were consistent with the market rates and therefore no gain or loss was recorded on initial recognition of the liability.

On 8 August 2012, the interest rate on both loans was changed to 1.07% p.a. (12-month USD LIBOR for interbank deposits on 1 July 2012). This rate will be in force until the Bank becomes profitable and other conditions stated in the agreement will be met by the Bank. During this period, interest payment is suspended. The Group estimated future cash flows arising on this instrument taking into account business plan assumptions and expectations of renewed profitability starting from 2016 (2013: starting from 2015). The change in the contractual terms did not result in derecognition of liabilities as the difference between the present value of future cash flows discounted at the original effective interest rate and the book value of borrowings as of the date of amendments was not material. The result from restructuring is recognised by the Group over the remaining term of the financial liability through application of the revised effective interest rate.

The debt ranks after all other creditors in case of liquidation.

Refer to Note 34 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

22 Share Capital

In thousands of hryvnias, except for number of shares	**Number of outstanding shares**	**Nominal amount**	**Total**
At 1 January 2013	191,896,946,916	1,918,969	1,918,969
At 31 December 2013	191,896,946,916	1,918,969	1,918,969
At 31 December 2014	191,896,946,916	1,918,969	1,918,969

The nominal registered amount of the Bank's issued share capital is UAH 1,918,969 thousand (2013: UAH 1,918,969 thousand).

At 31 December 2014, the Group's authorised share capital comprised 191,896,946,916 (31 December 2013: 191,896,946,916) ordinary shares with a nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2014, all ordinary shares issued were fully paid and registered.

The Group's shareholders structure is presented below:

Shareholder	**2014**	**2013**
PKO BP S.A.	99.57%	99.57%
Other (resident and non-resident shareholders)	0.43%	0.43%
Total	**100.00%**	**100.00%**

23 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of hryvnias	Note	Revaluation reserve for securities available for sale	Revaluation reserve for premises	Total
Year ended 31 December 2013				
Available-for-sale investments:				
- Gains less losses arising during the year		(6,082)	-	(6,082)
Income tax recorded directly in other comprehensive income	28	(47)	-	(47)
Total other comprehensive income		**(6,129)**	**-**	**(6,129)**
Year ended 31 December 2014				
Available-for-sale investments:				
- Gains less losses arising during the year		22,496	-	22,496
Income tax recorded directly in other comprehensive income		(1,701)	(579)	(2,280)
Total other comprehensive income		**20,795**	**(579)**	**20,216**

24 Interest Income and Expense

In thousands of hryvnias	2014	2013
Interest income		
Loans and advances to legal entities	205,496	156,667
Loans and advances to individuals	137,260	98,833
Investment securities available for sale	74,810	66,565
Interest income on impaired financial assets	61,007	82,597
Investment securities held to maturity	56,964	6,532
Securities at fair value through profit or loss	6,360	6,520
Due from other banks	3,572	1,343
Total interest income	**545,469**	**419,057**
Interest expense		
Term deposits of individuals	172,523	200,449
Term deposits of legal entities	51,140	58,769
Term placements and loans from other banks	35,572	6,505
Subordinated debt	11,076	6,406
Amounts due to the National Bank of Ukraine	1,541	312
Other	-	53
Total interest expense	**271,852**	**272,494**
Net interest income	**273,617**	**146,563**

Information on interest income and expense from transactions with related parties is disclosed in Note 36.

25 Fee and Commission Income and Expense

In thousands of hryvnias	2014	2013
Fee and commission income		
Cash and settlement transactions	144,505	123,971
Agency fee from insurance companies	36,282	24,600
Purchase and sale of foreign currency	25,019	16,425
Guarantees issued	1,907	1,406
Agency fee from other financial institutions for credit products sold	8	9,485
Other	1,243	1,014
Total fee and commission income	**208,964**	**176,901**
Fee and commission expense		
Cash and settlement transactions	19,131	11,504
Guarantees received	422	278
Transactions with securities	275	213
Other	1,680	544
Total fee and commission expense	**21,508**	**12,539**
Net fee and commission income	**187,456**	**164,362**

Information on fee and commission income and expense from transactions with related parties is disclosed in Note 36.

26 Other Operating Income

In thousands of hryvnias	2014	2013
Gain from disposal of premises and equipment	11,515	692
Income from operating leases	2,637	1,643
Support of operations from partner companies	1,028	-
Income from transactions with construction financing fund	995	124
Partial debt forgiveness for loan from other bank	930	-
Other	1,447	1,949
Total other operating income	**18,552**	**4,408**

27 Administrative and Other Operating Expenses

In thousands of hryvnias	Note	2014	2013
Staff costs		178,451	149,316
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	14	46,674	32,420
Operating lease expense for premises		35,422	27,856
Utilities		22,312	19,715
Repair and maintenance of premises and equipment and technical support of intangible assets		37,379	14,761
Communication		15,150	12,997
Professional services		15,914	10,458
Contributions to Individuals Deposit Guarantee Fund		12,037	13,583
Security services		8,454	9,440
Taxes other than on income		7,994	6,019
Advertising and marketing services		5,797	3,854
Business trips		2,580	2,474
Charity		575	348
Other		41,883	28,714
Total administrative and other operating expenses		**430,622**	**331,955**

Included in staff costs is the unified social tax in the amount of UAH 42,929 thousand (2013: UAH 34,936 thousand). Contribution to the state pension fund comprises 90% of the unified social tax, amounting to UAH 38,636 thousand (2013: UAH 31,442 thousand). No discretionary pensions and other post-employment benefits are provided by the Group.

28 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of hryvnias	2014	2013
Current tax	8,441	45,116
Tax on financial assistance recognised in equity	(9,437)	(32,041)
Deferred tax	(30,366)	131,431
Income tax (credit)/expense for the year	**(31,362)**	**144,506**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's income is 18% (2013: 19%). A reconciliation between the expected and the actual taxation charge is provided below.

28 Income Taxes (Continued)

In thousands of hryvnias	2014	2013
Loss before tax	**(316,584)**	**(180,147)**
Theoretical tax credit at statutory rate (2014: 18%; 2013: 19%)	(56,985)	(34,228)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	3,703	28,547
- Debt forgiveness and provision expenses not deductible for taxation purposes	6,354	5,532
- Other non-deductible expenses	7,881	12,122
Unrecognised deferred tax asset of the Group subsidiary	13,002	-
Tax losses written off upon court decision	-	135,101
Effect of other changes in tax legislation	(5,317)	(2,568)
Income tax (credit)/expense for the year	**(31,362)**	**144,506**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Ukraine 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.

In thousands of hryvnias	31 December 2013	Credited/ (charged) to profit or loss for the year	Charged to other comprehen-sive income for the year	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	12,306	1,976	(579)	13,703
Provision for loan impairment	(2,978)	22,353	-	19,375
Unamortised discounts/premiums	1,145	2,611	-	3,756
Fair valuation of securities	1,829	3,629	(1,701)	3,757
Accrued expenses and other liabilities	3,886	(1,198)	-	2,688
Interest accrual on carrying value of loans	-	2,214	-	2,214
Tax losses carried forward	-	16,481	-	16,481
Unrecognised tax asset	-	(13,002)	-	(13,002)
Interest accrued on loans issued to non-resident	-	1,040	-	1,040
Unamortised income from inital recognition of financial instruments	-	(4,956)	-	(4,956)
Other	958	(782)	-	176
Net deferred tax asset	**17,146**	30,366	(2,280)	**45,232**
Recognised deferred tax asset	20,124	-	-	63,190
Recognised deferred tax liability	(2,978)	-	-	(17,958)
Net deferred tax asset	**17,146**	**-**	**-**	**45,232**

In 2013 the Group written off deferred tax asset relating to tax losses carried forward as a result of High Administrative Court of Ukraine decision issued in November 2013 (refer to Note 33).

28 Income Taxes (Continued)

In thousands of hryvnias	31 December 2012	Credited/ (charged) to profit or loss for the year	Charged to other comprehen-sive income for the year	Credited directly to equity	31 December 2013
Tax effect of deductible/(taxable) temporary differences					
Premises and equipment	12,538	(444)	-	212	12,306
Provision for loan impairment	(4,242)	1,264	-	-	(2,978)
Unamortised discounts/premiums	-	1,145	-	-	1,145
Fair valuation of securities	1,619	258	(48)	-	1,829
Accrued expenses and other liabilities	3,397	489	-	-	3,886
Tax losses carried forward	135,101	(135,101)	-	-	-
Other	-	958	-	-	958
Net deferred tax asset	**148,413**	**(131,431)**	**(48)**	**212**	**17,146**
Recognised deferred tax asset	152,655	-	-	-	20,124
Recognised deferred tax liability	(4,242)	-	-	-	(2,978)
Net deferred tax asset	**148,413**	**(131,431)**	**(48)**	**212**	**17,146**

29 Basic and Diluted Loss per Share

Basic earnings/(loss) per share are calculated by dividing net profit or loss attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Group has no dilutive potential ordinary shares, therefore, the diluted loss per share equals the basic loss per share. Earnings per share are calculated as follows:

In thousands of hryvnias	2014	2013
Loss for the year attributable to ordinary shareholders	(285,222)	(324,653)
Loss for the year	(285,222)	(324,653)
Weighted average number of ordinary shares in issue (thousands)	191,896,946	191,896,946
Loss per share for loss attributable to the owners of the Group, basic and diluted (expressed in UAH per share)	**(0.0015)**	**(0.0017)**

30 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities and foreign currency operations.
- Treasury and investment banking – representing financial instruments trading, structured financing, operations with foreign currency and banknotes.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Management Board reviews financial information prepared based on Ukrainian accounting standards. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(ii) income taxes are not allocated to segments;

(iii) loan provisions are recognised based on the NBU requirements rather than based on the incurred loss model prescribed in IAS 39; and

(iv) commission income related to lending is partially recognized immediately rather than deferred using the effective interest method.

The CODM evaluates performance of each segment based on profit before tax.

Reports include information on transfer (internal) results of reportable segments. Transfer result is calculated as difference between transfer income and transfer expense of each segment calculated at transfer prices set by major currencies and maturities. For corporate and retail segment transfer income is formed as estimated income from sale of attracted resources to Treasury and investment segment at transfer prices for such resources; transfer expenses are formed as estimated expenditure for purchase of resources from Treasury and investment segment at transfer prices for resources placed.

Calculation of transfer prices and transfer income/expense is performed in accordance with "Methodology for defining and applying transfer prices of resources in KREDOBANK system" approved by the decision of the Management Board (№ 41/2008 dated 18 December 2008).

30 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2014 is set out below:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Total
Reportable segment assets	**1,162,939**	**2,080,800**	**2,377,183**	**611,284**	**6,232,206**
Reportable segment liabilities	**1,980,723**	**1,659,956**	**2,095,224**	**134,927**	**5,870,830**
Capital expenditure	**-**	**-**	**-**	**15,897**	**15,897**

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallo-cated	Elimina-tions	Total
2014						
External revenues:						
- Interest income	154,687	239,101	154,043	-	-	547,831
- Fee and commission income	81,793	95,877	4,046	-	-	181,716
- Other operating income	36,827	9,497	-	64,091	-	110,415
Revenues from other segments						
- Interest income	215,894	93,404	356,959	-	(666,257)	-
Total revenues	**489,201**	**437,879**	**515,048**	**64,091**	**(666,257)**	**839,962**
Interest expense	(336,069)	(249,547)	(336,918)	-	666,257	**(256,277)**
Provision for loan impairment	(94,677)	53,721	(1,034)	-	-	**(41,990)**
Impairment of investment securities available for sale	-	-	(1,203)	-	-	**(1,203)**
Reversal of provision for credit related commitments	335	1,011	-	-	-	**1,346**
Depreciation charge	-	-	-	(46,873)	-	**(46,873)**
Fee and commission expense	(12,752)	(4,096)	(4,252)	-	-	**(21,100)**
Gains from securities at fair value through profit or loss	-	-	47,335	-	-	**47,335**
Gains less losses from trading in foreign currencies	43,544	-	-	14,454	-	**57,998**
Foreign exchange translation losses less gains	-	-	-	(177,222)	-	**(177,222)**
Gains less losses from disposal of investment securities available for sale	-	-	2,409	-	-	**2,409**
Administrative and other operating expenses	(9,831)	(109,756)	-	(403,579)	-	**(523,166)**
Segment result	79,751	129,212	221,385	(549,129)	-	**(118,781)**

30 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2013 is set out below:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Elimina-tions	Total
Reportable segment assets	895,530	1,501,466	1,252,876	729,062	**-**	**4,378,934**
Reportable segment liabilities	1,857,154	947,491	862,170	69,853	**-**	**3,736,668**
Capital expenditure	-	-	-	17,952	**-**	**17,952**

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallo-cated	Elimina-tions	Total
2013						
External revenues:						
- Interest income	118,601	233,799	80,570	-	-	**432,970**
- Fee and commission income	76,106	73,556	2,639	-	-	**152,301**
- Other operating income	40,968	29,640	-	174,452	-	**245,060**
Revenues from other segments						
- Interest income	234,580	76,681	291,290	-	(602,551)	-
Total revenues	**470,255**	**413,676**	**374,499**	**174,452**	**(602,551)**	**830,331**
Interest expense	(311,935)	(238,295)	(321,441)	-	602,551	**(269,120)**
Provision for loan impairment	(27,449)	(128,063)	(107)	-	-	**(155,619)**
Impairment of investment securities available for sale	-	-	(1,395)	-	-	**(1,395)**
Reversal of provision/(provision) for credit related commitments	346	(337)	(23)	-	-	**(14)**
Depreciation charge	-	-	-	(32,529)	-	**(32,529)**
Fee and commission expense	(7,861)	(2,102)	(2,056)	-	-	**(12,019)**
Losses less gains from securities at fair value through profit or loss	-	-	(766)	-	-	**(766)**
Gains less losses from trading in foreign currencies	8,500	-	-	3,507	-	**12,007**
Foreign exchange translation losses less gains	-	-	-	(2,008)	-	**(2,008)**
Gains less losses from disposal of investment securities available for sale	-	-	3,473	-	-	**3,473**
Administrative and other operating expenses	(2,020)	(60,739)	-	(308,683)	-	**(371,442)**
Segment result	**129,836**	**(15,860)**	**52,184**	**(165,261)**	-	**899**

30 Segment Analysis (Continued)

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In thousands of hryvnias	**2014**	**2013**
Total revenues for reportable segments	**839,962**	**830,331**
Recognition of non-repayable financial assistance received from parent company as equity transaction	(52,426)	(168,640)
Netting operations with similar substance	-	(44,496)
IFRS adjustment to interest income	(4,375)	(13,066)
Difference on accounting for transactions with securities	(10,215)	-
Recognition of due to other banks at fair value	38,368	-
Other	39	(3,763)
Total revenues	**811,353**	**600,366**

Total revenues comprise interest income, fee and commission income and other operating income.

In thousands of hryvnias	**2014**	**2013**
Total reportable segment result	**(118,781)**	**899**
Recognition of non-repayable financial assistance received from parent company as equity transaction	(52,426)	(168,640)
Adjustment of provision for loan impairment	(130,377)	(15,901)
Recognition of subordinated debt at amortised cost	(14,506)	(3,321)
IFRS adjustment to interest income	(4,301)	-
Adjustment for fair value of other assets	(21,914)	10,474
Recognition of due to other banks at fair value	38,368	
Amortisation of premium from recognition of debt at fair value	(9,264)	
Other	(3,383)	(3,658)
Loss before tax	**(316,584)**	**(180,147)**

In thousands of hryvnias	**2014**	**2013**
Total reportable segment assets	**6,232,206**	**4,378,934**
Adjustment for deferred and current taxes	15,216	(135,841)
Cut-off adjustment for cash	(21,933)	(15,837)
Adjustment of provision for loan impairment	(119,855)	13,993
Accounting for operations on a net basis and reclassification	(54,030)	(29,870)
Adjustment for fair value of other assets	(13,482)	10,474
Adjustment for accounting for premises	(2,355)	(2,431)
Other	(20,865)	(2,727)
Total assets	**6,014,902**	**4,216,695**

In thousands of hryvnias	**2014**	**2013**
Total reportable segment liabilities	**5,870,830**	**3,736,668**
Adjustment for balances on customer accounts	(43,189)	(12,734)
Netting operations with similar substance	(54,030)	(34,974)
Adjustment for deferred and current taxes	(11,458)	44,326
Adjustment to subordinated debt	20,866	-
Other	(27,451)	2,059
Total liabilities	**5,755,568**	**3,735,344**

30 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the year ended 31 December 2014 is as follows:

In thousands of hryvnias	Total amount for all reportable segments	Adjustment of provision for loan impairment and interest income (i)	Recognition of non-refundable financial assistance received from parent company directly in equity (ii)	Reclassification of income/expenses in accordance with their substance (iii)	Adjustment of due to other banks (iv)	Other	As reported under IFRS
Material income and expenses for the year ended 31 December 2014							
External revenues:							
- Interest income	**547,831**	(12,301)	-	9,939	-	-	**545,469**
- Fee and commission income	**181,716**	-	-	27,248	-	-	**208,964**
- Other operating income	**110,415**	-	(52,427)	(39,475)	38,368	39	**56,920**
Interest expense	**(256,277)**	-	-	-	(15,575)	-	**(271,852)**
Provision for loan impairment	**(41,990)**	(110,733)	-	(127,113)	-	3,693	**(276,143)**
Impairment of investment securities available for sale	**(1,203)**	-	-	-	-	(21,584)	**(22,787)**
Provision for credit related commitments	**1,346**	-	-	-	-	(1,842)	**(496)**
Depreciation charge	**(46,873)**	-	-	-		199	**(46,674)**
Fee and commission expense	**(21,100)**	-	-	(408)	-	-	**(21,508)**
Losses less gains from securities at fair value through profit or loss	**47,335**	-	-	-	-	1,621	**48,956**
Gains less losses from trading in foreign currencies	**57,998**	-	-	-	-	652	**58,650**
Foreign exchange translation losses less gains	**(177,222)**	(11,643)	-	-	(9,768)	32	**(198,601)**
Gains less losses from disposal of investment securities available for sale	**2,409**	-	-	-	-	1,363	**3,772**
Administrative and other operating expenses	**(523,166)**	-	-	129,809	-	(7,897)	**(401,254)**

The reconciling items are attributable to the following:

(i) the Group analyses in Segment reporting provision for impairment created in accordance with the NBU requirements; in addition, for IFRS reporting purposes interest is accrued on carrying value of loans;

(ii) non-refundable financial assistance received from parent company was recorded in equity for IFRS reporting purpose;

(iii) income and expenses were reclassified by substance for IFRS reporting purposes: in particular, agency fee from insurance companies was recorded as fee and commission income; result from sales and forgiveness of loans was recorded within impairment provisions; some fee and commission income from loans was reclassified to interest income;

(iv) subordinated debt is accounted for using the effective interest rate for IFRS reporting purposes. Due to other banks originated at rates below market is recognised at fair value.

30 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the year ended 31 December 2013 is as follows:

In thousands of hryvnias	Total amount for all reportable segments	Adjustment of provision for loan impairment (i)	Recognition of non-refundable financial assistance received from parent company directly in equity (ii)	Reclassification of income/expenses in accordance with their substance (iii)	Reclassification of income/expenses related to loans and advances to customers (iv)	Other	As reported under IFRS
Material income and expenses for the year ended 31 December 2013							
External revenues:							
- Interest income	**432,970**	(13,066)	-	-	-	(847)	**419,057**
- Fee and commission income	**152,301**	-	-	24,600	-	-	**176,901**
- Other operating income	**245,060**	-	(168,640)	(24,600)	(44,496)	(2,916)	**4,408**
Interest expense	**(269,120)**	-	-	-	-	(3,374)	**(272,494)**
Provision for loan impairment	**(155,619)**	3,110	-	-	(7,279)	1,334	**(158,454)**
Impairment of investment securities available for sale	**(1,395)**	-	-	-	-	1,395	**-**
Provision for credit related commitments	**(14)**	-	-	-	-	(380)	**(394)**
Depreciation charge	**(32,529)**	-	-	-	-	109	**(32,420)**
Fee and commission expense	**(12,019)**	-	-	-	-	(520)	**(12,539)**
Losses less gains from securities at fair value through profit or loss	**(766)**	-	-	-	-	(1,139)	**(1,905)**
Gains less losses from trading in foreign currencies	**12,007**	-	-	-	-	(384)	**11,623**
Foreign exchange translation losses less gains	**(2,008)**	-	-	-	-	-	**(2,008)**
Gains less losses from disposal of investment securities available for sale	**3,473**	-	-	-	-	(2,031)	**1,442**
Administrative and other operating expenses	**(371,442)**	-	-	-	51,775	6,303	**(313,364)**

The reconciling items are attributable to the following:

(i) the Group analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) non-refundable financial assistance received from parent company was recorded in equity for IFRS reporting purposes;

(iii) agency fee from insurance companies was recorded as fee and commission income for IFRS reporting purposes;

(iv) movement in provision for loan and advances to customers was presented on a net basis for IFRS reporting purposes.

30 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2014 is as follows:

In thousands of hryvnias	Total amount for all reportable segments	Effect of adjustment of interest and provision for credit-related transactions and off-balance sheet commitments	Adjustment for deferred and current taxes	Netting operations with similar substance	Adjustment for balances on customer accounts	Other	As reported under IFRS
Assets at 31 December 2014	**6,232,206**	**(119,855)**	**15,216**	**(54,030)**	**(43,191)**	**(15,444)**	**6,014,902**
Cash and cash equivalents and mandatory reserves	**528,706**	1,864	-	-	(21,933)	(7,641)	**500,996**
Loans and advances to customers	**3,216,142**	(121,719)	-	(35,976)	-	36,949	**3,095,396**
Premises, leasehold improvements, equipment, intangible assets and investment property	**494,485**	-	-	(12,092)	-	(245)	**482,148**
Other reportable segment assets	**1,992,873**	-	15,216	(5,962)	(21,258)	(44,507)	**1,936,362**
Liabilities at 31 December 2014	**5,870,830**	**83**	**(11,459)**	**(54,030)**	**(43,189)**	**(6,667)**	**5,755,568**
Due to other banks	**1,528,323**	-	**-**	**-**	-	(27,533)	**1,500,790**
Customer accounts	**3,638,414**	-	-	-	(26,717)	-	**3,611,697**
Subordinated debt	**566,020**	-	-	-	-	20,866	**586,886**
Other reportable segment liabilities	**138,073**	83	(11,459)	(54,030)	(16,472)	-	**56,195**
Capital expenditure for 2014	**15,897**	**-**	**-**	**-**	**-**	**(11,847)**	**4,050**

The reconciling items are attributable to the following:

(i) the Group analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) adjustment relating to accounting for fixed assets was recognised for IFRS reporting purposes;

(iv) netting of other assets and other liabilities with the same substance for IFRS reporting purposes;

(v) actual cash and cash equivalents balance as at balance sheet date is recognised for IFRS reporting purposes.

30 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2013 is as follows:

In thousands of hryvnias	**Total amount for all reportable segments**	**Effect of adjustment of interest and provision for credit-related transactions and off-balance sheet commitments**	**Adjustment for deferred and current taxes**	**Netting operations with similar substance**	**Adjustment for balances on customer accounts**	**Other**	**As reported under IFRS**
Assets at 31 December 2013	**4,378,934**	**13,993**	**(135,841)**	**(29,870)**	**(16,568)**	**6,047**	**4,216,695**
Cash and cash equivalents and mandatory reserves	**383,846**	-	-	-	(15,837)	(1,975)	**366,034**
Loans and advances to customers	**2,374,468**	13,993	-	(22,249)	-	-	**2,366,212**
Premises, leasehold improvements, equipment, intangible assets and investment property	**544,436**	-	-	-	-	2,937	**547,373**
Other reportable segment assets	**1,076,184**		(135,841)	(7,621)	(731)	5,085	**937,076**
Liabilities at 31 December 2013	**3,736,668**	**-**	**41,784**	**(29,870)**	**(16,569)**	**3,331**	**3,735,344**
Due to other banks	**577,787**	-	-	-	-		**577,787**
Customer accounts	**2,800,757**	-	-	-	(13,740)	1,005	**2,788,022**
Subordinated debt	**283,792**	-	-	-	-	6,360	**290,152**
Other reportable segment liabilities	**74,332**	-	41,784	(29,870)	(2,829)	(4,034)	**79,383**
Capital expenditure for 2013	**17,952**	**-**	**-**	**-**	**-**	**5,367**	**23,319**

The reconciling items are attributable to the following:

(i) the Group analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) adjustment relating to accounting for fixed assets was recognised for IFRS reporting purposes;

(iv) netting of other assets and other liabilities with the same substance for IFRS reporting purposes;

(v) actual cash and cash equivalents balance as at balance sheet date is recognised for IFRS reporting purposes.

(f) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Note 24 (interest income) and Note 25 (fee and commission income).

(g) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Group has no material revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Please also refer to Note 31 for geographical analysis of the Group's assets and liabilities.

(h) Major customers

The Group does not have customers with the revenues exceeding 10 % of the total revenue of the Group.

31 Financial Risk Management

The risk management function within the Group is carried out by the Group in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 33. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group established authorised corporate bodies which are responsible for approving credit limits for individual borrowers:

- Supervisory Board reviews and approves credit applications above USD 5.0 million and loans restructuring above USD 6.25 million.
- Management Board reviews and approves credit applications up to USD 5.0 million and loans restructuring up to USD 6.25 million.
- Credit committee of the Bank reviews and approves credit applications up to UAH 15 million, Small credit committee of the Bank and Small committee on restructuring – up to UAH 5 million, and the Credit committee on restructuring – up to UAH 50 million. Credit committee and Small Credit committee of the Bank meet usually two times per week. Credit committee on restructuring and Small committee on restructuring meet usually once a week.
- The individual right to approve new credit decisions with the limits below UAH 5.0 million is granted separately to the Deputies of the Chairman of the Board and the directors of departments of the Head Office.
- The individual right to approve new credit decisions with the limits below UAH 0.1 million is granted separately to the directors of independent branches.

Loan applications originated by the relevant client relationship managers are passed on to the relevant department that performs a credit analysis and takes an appropriate decision or passes them on to the relevant credit committee for approval of credit limit within the scope of authority. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

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

The Bank's credit monitoring department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 9, 10, 11, 12 and 15.

31 Financial Risk Management (Continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The report on the analysis of the credit profile of the Group, and also the detailed analysis of the level of credit risk per the credit profile in general and per branches of crediting is presented to management bodies of the Bank on a monthly basis.

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

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored at regular intervals. Currency risk results from the Group having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currency as of the reporting date. The Group evaluates and monitors levels of long and short foreign exchange open positions by currency using hryvnia as its base currency. Open position limits for the Bank are set at the level established by the NBU regulations calculated as a percentage of open currency position of regulatory capital of the Bank. Compliance with these limits is monitored by Market and Operational Risk Department on a daily basis. The Market and Operational Risk Department reports on a weekly basis to Asset, Liability and Tariffs Management Committee (ALTCO).

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2014			**At 31 December 2013**			
In thousands of hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
hryvnias	2,618,720	2,385,920	232,800	2,251,173	2,139,069	(68,349)	43,755
US Dollars	2,251,411	2,742,407	(490,996)	994,774	1,176,639	67,941	(113,924)
Euros	485,796	549,620	(63,824)	349,843	341,152	-	8,691
British pounds	5,326	5,192	134	814	851	-	(37)
Russian roubles	17,340	17,227	113	4,477	4,354	-	123
Other	26,044	23,022	3,022	9,452	8,551	-	901
Total	**5,404,637**	**5,723,388**	**(318,751)**	**3,610,533**	**3,670,616**	**(408)**	**(60,491)**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk

31 Financial Risk Management (Continued)

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

In thousands of hryvnias	At 31 December 2014 Impact on profit or loss	At 31 December 2014 Impact on equity	At 31 December 2013 Impact on profit or loss	At 31 December 2013 Impact on equity
US dollar strengthening by 40% (2013: strengthening by 15%)	(196,398)	(196,398)	(17,089)	(17,089)
US dollar weakening by 40% (2013: weakening by 15%)	196,398	196,398	17,089	17,089
Euro strengthening by 40% (2013: strengthening by 15%)	(25,530)	(25,530)	1,304	1,304
Euro weakening by 40% (2013: weakening by 15%)	25,530	25,530	(1,304)	(1,304)
Russian rouble strengthening by 40% (2013: strengthening by 15%)	45	45	18	18
Russian rouble weakening by 40% (2013: weakening by 15%)	(45)	(45)	(18)	(18)
Other currencies strengthening by 40% (2013: strengthening by 15%)	1,209	1,209	73	73
Other currencies weakening by 40% (2013: weakening by 15%)	(1,209)	(1,209)	(73)	(73)
Total	**-**	**-**	**-**	**-**

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Non-monetary	Total
31 December 2014						
Total financial assets	1,015,094	700,896	1,623,831	2,064,816	30	5,404,667
Total financial liabilities	(3,546,552)	(421,815)	(1,148,772)	(606,249)	-	(5,723,388)
Net interest sensitivity gap at 31 December 2014	**(2,531,458)**	**279,081**	**475,059**	**1,458,567**	**30**	**(318,721)**
31 December 2013						
Total financial assets	725,126	317,096	783,247	1,785,064	30	3,610,563
Total financial liabilities	(1,858,281)	(458,124)	(996,574)	(358,045)	-	(3,671,024)
Net interest sensitivity gap at 31 December 2013	**(1,133,155)**	**(141,028)**	**(213,327)**	**1,427,019**	**30**	**(60,461)**

31 Financial Risk Management (Continued)

At 31 December 2014, if interest rates on financial instruments denominated in USD at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 22,571 thousand higher/lower (31 December 2013: UAH 7,910 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

At 31 December 2014, if interest rates on financial instruments denominated in EUR at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 1,753 thousand lower/higher (31 December 2013: UAH 1,846 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest income on variable interest assets.

At 31 December 2014, if interest rates on financial instruments denominated in UAH at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 13,849 thousand lower/higher (31 December 2013: UAH 8,352 thousand lower/higher if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest income on variable interest assets. Other components of equity would have been UAH 16,186 thousand lower/higher (31 December 2013: UAH 13,324 thousand lower/higher if interest rates had been 200 basis points higher/lower) as a result of a decrease/increase in the fair value of investment securities available for sale.

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

	2014				2013			
% per annum	**UAH**	**USD**	**Euro**	**Other**	**UAH**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents.	2%	0%	0%	4%	0%	0%	0%	0%
Securities at fair value through profit or loss	9%	-	-	-	9%	-	-	-
Due from other banks	0%	0%	-	-	0%	0%	-	-
Loans and advances to customers	15%	8%	6%	-	15%	9%	7%	-
Debt investment securities available for sale	18%	12%	-	-	17%	8%	-	-
Debt investment securities held to maturity	0%	7%	-	-	2%	9%	-	-
Liabilities								
Due to other banks	0%	3%	0%	-	6.5%	3%	1%	-
Customer accounts								
- current and settlement accounts	2%	0%	0%	0%	2%	0%	0%	0%
- term deposits	15%	4%	2%	-	15%	3%	1%	-
Subordinated debt	-	1%	-	-	-	1%	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

31 Financial Risk Management (Continued)

Other price risk. The Group is exposed to prepayment risk through providing fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

Geographical risk concentrations. The geographical concentration of the Group's assets and liabilities at 31 December 2014 is set out below:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	369,073	113,050	18,873	**500,996**
Securities at fair value through profit or loss	117,967	-	-	**117,967**
Due from other banks	6,388	-	66	**6,454**
Loans and advances to customers	3,095,320	21	55	**3,095,396**
Investment securities available for sale	809,288	-	-	**809,288**
Investment securities held to maturity	859,398	-	-	**859,398**
Other financial assets	15,149	18	1	**15,168**
Total financial assets	**5,272,583**	**113,089**	**18,995**	**5,404,667**
Non-financial assets	**607,921**	**2,172**	**142**	**610,235**
Total assets	**5,880,504**	**115,261**	**19,137**	**6,014,902**
Liabilities				
Due to other banks	25,277	1,475,513	-	**1,500,790**
Customer accounts	3,529,871	77,138	4,688	**3,611,697**
Other financial liabilities	22,618	1,397	-	**24,015**
Subordinated debt	-	586,886	-	**586,886**
Total financial liabilities	**3,577,766**	**2,140,934**	**4,688**	**5,723,388**
Non-financial liabilities	**32,176**	**2**	**2**	**32,180**
Total liabilities	**3,609,942**	**2,140,936**	**4,690**	**5,755,568**
Net position	**2,270,562**	**(2,025,675)**	**14,447**	**259,334**
Credit related commitments	**14,616**	**25,003**	**-**	**39,619**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is domiciled. Balances with Ukrainian counterparties actually outstanding to/from offshore companies of these Ukrainian counterparties are allocated to the caption "Ukraine". Cash on hand, premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held.

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2013 is set out below:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	266,101	94,957	4,976	**366,034**
Securities at fair value through profit or loss	68,992	-	-	**68,992**
Due from other banks	7,345	-	33	**7,378**
Loans and advances to customers	2,366,135	13	64	**2,366,212**
Investment securities available for sale	685,610	-	-	**685,610**
Investment securities held to maturity	102,549	-	-	**102,549**
Other financial assets	13,774	9	5	**13,788**
Total financial assets	**3,510,506**	**94,979**	**5,078**	**3,610,563**
Non-financial assets	**604,403**	**1,657**	**72**	**606,132**
Total assets	**4,114,909**	**96,636**	**5,150**	**4,216,695**
Liabilities				
Due to other banks	32,770	545,017	-	**577,787**
Customer accounts	2,701,601	84,398	2,023	**2,788,022**
Other financial liabilities	15,063	-	-	**15,063**
Subordinated debt	-	290,152	-	**290,152**
Total financial liabilities	**2,749,434**	**919,567**	**2,023**	**3,671,024**
Non-financial liabilities	**64,041**	**1**	**278**	**64,320**
Total liabilities	**2,813,475**	**919,568**	**2,301**	**3,735,344**
Net position	**1,301,434**	**(822,932)**	**2,849**	**481,351**
Credit related commitments	**3,164**	**24,881**	-	**28,045**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, debt securities and subordinated debt. The Group invests the funds in portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

31 Financial Risk Management (Continued)

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 29% at 31 December 2014, with the required ratio being not less than 20% (the ratio was 34% at 31 December 2013, with the required ratio being not less than 20%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 91% at 31 December 2014, with the required ratio being not less than 40% (the ratio was 88% at 31 December 2013, with the required ratio being not less than 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 87% at 31 December 2014, with the required ratio being not less than 60% (the ratio was 68% at 31 December 2013, with the required ratio being not less than 60%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The table below shows liabilities at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2014 is as follows:

In thousands of hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	494,620	11879	211,397	862,658	-	**1,580,554**
Customer accounts	2,375,707	426,088	808,935	41,745	35,838	**3,688,313**
Subordinated debt	-	-	-	604,351	-	**604,351**
Other financial liabilities	23,031	86	597	300	1	**24,015**
Credit related commitments	-	35,564	3,920	135	-	**39,619**
Total potential future payments for financial obligations	**2,893,358**	**473617**	**1,024,849**	**1,509,189**	**35,839**	**5,936,852**

31 Financial Risk Management (Continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Group does not generally expect the third party to draw funds under the agreement.

The maturity analysis of financial liabilities at 31 December 2013 is as follows:

In thousands of hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	160,563	5,671	6,828	437,398	-	610,460
Customer accounts	1,324,228	471,645	917,405	139,545	56,859	2,909,682
Subordinated debt	-	-	-	334,659	-	334,659
Gross settled forwards:						
− inflows	(67,941)	-	-	-	-	(67,941)
− outflows	68,349	-	-	-	-	68,349
Other financial liabilities	14,571	43	273	176	-	15,063
Credit related commitments	-	5,281	22,710	54	-	28,045
Total potential future payments for financial obligations	**1,499,770**	**482,640**	**947,216**	**911,832**	**56,859**	**3,898,317**

As disclosed in Note 33, as at 31 December 2014 and 31 December 2013 the Group breached certain financial covenants set by loan agreements with EBRD, therefore, all loans from EBRD were classified on demand in the above analysis.

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2014:

In thousands of hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2014						
Financial assets	972,504	612,061	1,620,212	1,941,861	258,029	5,404,667
Financial liabilities	2,858,757	413,008	988,125	1,435,227	28,271	5,723,388
Net liquidity gap based on expected maturities	**(1,886,253)**	**199,053**	**632,087**	**506,634**	**229,758**	**(318,721)**
At 31 December 2013						
Financial assets	569,663	131,864	653,112	1,708,010	547,884	3,610,533
Financial liabilities	1,481,427	417,051	898,130	834,723	39,693	3,671,024
Net liquidity gap based on expected maturities	**(911,764)**	**(285,187)**	**(245,018)**	**873,287**	**508,191**	**(60,491)**

31 Financial Risk Management (Continued)

As disclosed in Note 33, as at 31 December 2014 and 31 December 2013 the Group breached certain financial covenants set by loan agreements with EBRD. Although the lender has the right to require early repayment of these loans, the Group does not expect that such a request would be received. Therefore, these loans were classified in the table above according to their expected maturity.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

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

32 Management of Capital

The Group's objectives when managing capital are: (i) to comply with the capital requirements set for the Bank by the National Bank of Ukraine, and (ii) to safeguard the Group's ability to continue as a going concern. The Group considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Group managed as of 31 December 2014 was UAH 259,334 thousand (31 December 2013: UAH 481,351 thousand). The Bank's compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually

In 2014 the Group received from its parent company (PKO BP S.A.) non-repayable financial assistance in the amount of USD 6,021 thousand aimed to prevent incompliance with capital requirements (2013: assistance in the amount of USD 20,681 thousand aimed to prevent incompliance with capital requirements). This transaction is recognised in equity.

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. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

In thousands of hryvnias	**2014**	**2013**
Primary capital	297,668	390,935
Additional capital	297,668	390,935
Diversion	-	(2,684)
Total regulatory capital	**595,336**	**779,186**

As at 31 December 2014 and 31 December 2013, the Bank was not in compliance with the prescribed minimum level of the regulatory capital required by paragraph 2.2, Section 2, Chapter II of the NBU Resolution No 368 dated 28 August 2001 "On Approving the Instruction on Regulation of Banks in Ukraine" (as amended) because the Bank's regulatory capital was below its authorised capital.

As at 31 December 2014 and 31 December 2013, the Bank's subsidiary was in breach of Article 144 of the Civil Code of Ukraine because its authorised capital exceeded its net assets.

Management believes that the risk of sanctions for the Group entities that may result from the above incompliance is remote.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external 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 consolidated financial statements.

At 31 December 2014, the Group was engaged in litigation proceedings with two customers who filed a claim against the Group for damages totalling UAH 13 million. No provision has been made as on the basis of its own estimates and external professional advice, the Group's management believes that the risk of loss for the Group is possible but not probable.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As a result, significant additional taxes, penalties and interest may be assessed.

The State Tax Inspection of Lviv tried to limit the Group's expenses from factoring arrangements with the related party to the amount of income received under the respective agreement. The Group filed a claim to Lviv District Administrative Court and won it. The tax authorities appealed against such decision to the court of appeal and the court of appeal confirmed previous court decision. However, on 19 November 2013 High Administrative Court of Ukraine made decision in favour of Tax Inspection. As a result of this decision deferred tax asset in respect of tax loss carried forward was written off and current income tax liability was accrued and paid.

As a result of the most recent tax inspection, the State Tax Inspection of Lviv presented report dated 6 February 2013 that includes a number of issues resulting in additional tax obligations and penalties to be paid. The Group challenged tax notices in the courts of first and second instance that rendered lawful the Group's tax position. Tax Inspection then filed a cassation appeal to High Administrative Court of Ukraine to reverse such rulings. The court hearing was held on 10 February 2015 and High Administrative Court of Ukraine affirmed the decisions made by the courts of first instances. The Group management believes that the risk of such court ruling being challenged in future is remote.

In 2014 the Bank made controlled transactions with its subsidiary on assignment of loan claims. The transfer pricing rules allow the tax authorities to make price adjustments for transactions subject to transfer pricing and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length. The 2014 threshold for the reporting of controlled transactions is UAH 50 million (net of VAT, for all transactions with one counterparty cumulatively for the year). According to the tax changes, the Bank is required to submit a report with details on controlled transactions by 1 May 2015 and relevant transfer pricing documentation not later than 1 month following the request of the tax office (if any).

Capital expenditure commitments. At 31 December 2014, the Group has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 2,040 thousand (31 December 2013: UAH 7,665 thousand) and in respect of intangible assets in the amount of UAH 13,111 thousand (31 December 2013: UAH 2,296 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. The Group does not have non-cancellable operating leases.

Compliance with covenants. The Group is subject to certain covenants related primarily to loans from other banks. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

33 Contingencies and Commitments (Continued)

There are certain financial covenants under agreements with European Bank for Reconstruction and Development. In particular, the Bank is required to maintain a certain level of capital to risk weighted assets ratio, highly liquid assets to demand deposits ratio, liquid assets to short-term liabilities ratio, open credit exposure ratio, maximum exposure to related parties to capital ratio, aggregate related party exposure ratio, share of problem loans to gross loans and to be in compliance with the NBU prudential requirements.

As at 31 December 2014, the Bank reduced ratio of loans past due over 30 days to gross loans and advances (before impairment) to 14.74% (31 December 2013: this ratio was 24.54%). However, it is still higher than required ratio under agreements with EBRD.

This non-compliance with loan covenants gives the EBRD legal right to demand early repayment of the loans. As at the date of issue of these financial statements, the Group had not received from EBRD neither requirement to early repay the loans nor a waiver from this requirement.

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 Group 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 Group on behalf of a customer authorising a third party to draw drafts on the Group 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.

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 Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. 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 Group 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. Outstanding credit related commitments are as follows:

In thousands of hryvnias	**Note**	**2014**	**2013**
Guarantees issued		44,030	38,457
Less: Provision for credit related commitments	19	(996)	(499)
Less: Cash covered credit related commitments	18	(3,415)	(9,913)
Total credit related commitments		**39,619**	**28,045**

Credit related commitments are denominated in currencies as follows:

In thousands of hryvnias	**2014**	**2013**
hryvnias	14,425	3,168
Euros	25,194	18,639
Polish zlotys	-	6,238
Total	**39,619**	**28,045**

As at 31 December 2014, all commitments to extend credits are revocable and amount to UAH 443,344 thousand (31 December 2013: UAH 370,879 thousand).

The total outstanding contractual amount of commitments to extend credit, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 996 thousand at 31 December 2014 (2013: UAH 499 thousand).

34 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2014				2013			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Securities at fair value through profit or loss								
- Ukrainian Government bonds	-	117,967	-	117,967	-	68,992	-	68,992
Investment securities available for sale								
- Ukrainian Government bonds	-	737,909	-	737,909	-	545,017	-	545,017
- Corporate bonds	-	69,420	1,929	71,349	-	140,563	-	140,563
- Corporate shares	-	-	30	30	-	-	30	30
NON-FINANCIAL ASSETS								
- Premises		275,333		275,333	-	327,503	-	327,503
- Investment properties	-	8,928	-	8,928	-	15,536	-	15,536
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS		**1,209,557**	**1,959**	**1,211,516**	**-**	**1,097,611**	**30**	**1,097,641**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES		-		-	-	-	-	-
Other financial liabilities								
- Foreign exchange forward contracts		-		-	-	408	-	408
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS		**-**		**-**	**-**	**408**	**-**	**408**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In thousands of hryvnias	**Fair value**	**Valuation technique**	**Inputs used**
ASSETS AT FAIR VALUE			
FINANCIAL ASSETS			
Securities at fair value through profit or loss			
- Ukrainian Government bonds	117,967	Market approach	Quoted prices on less active market
Investment securities available for sale			
- Ukrainian Government bonds	737,909	Market approach	Quoted prices on less active market
- Corporate bonds	69,420	Market approach	Quoted prices on less active market
NON-FINANCIAL ASSETS			
- Premises	275,333	Market approach	Comparable prices for similar properties
- Investment properties	8,928	Market approach	Comparable prices for similar properties
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**1,209,557**		

34 Fair Value Disclosures (Continued)

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2014 (2013: none).

If the unobservable inputs used for fair valuation of corporate bonds were higher/lower by 10%, their fair value would be UAH 2,395 thousand higher/lower. For this purpose, significance was judged with respect to profit/loss or total assets.

A reconciliation of movements in Level 3 of the fair value hierarchy is as follows:

	Securities available for sale	
In thousands of hryvnias	**Corporate bonds**	**Corporate shares**
Fair value at 1 January 2014	**-**	**30**
Gains or losses recognised in profit or loss for the year	(20,915)	-
Purchase	22,844	-
Fair value at 31 December 2014	**1,929**	**30**
Unrealised revaluation gains less losses recognised in profit or loss for the year for assets held at 31 December 2014	**(22,787)**	**-**

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2014				2013			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
ASSETS								
Due from other banks	-	**6,454**	-	**6,454**	**-**	**7,378**	**-**	**7,378**
- Guarantee deposits	-	6,454	-	6,454	-	7,378	-	7,378
Loans and advances to customers	**-**	**-**	**2,885,607**	**3,095,396**	**-**	**-**	**2,143,323**	**2,366,212**
- Corporate loans	-	-	1,931,242	1,972,173	-	-	1,460,606	1,479,077
- Loans to individuals - consumer loans	-	-	610,230	721,551	-	-	461,049	560,793
- Loans to individuals – mortgage loans	-	-	309,056	366,593	-	-	221,668	326,342
Reverse sale and repurchase agreements	-	-	35,079	35,079	-	-	-	-
Investment securities held to maturity	-	**873,503**	-	**859,398**	**-**	**101,723**	**-**	**102,549**
Other financial assets	-	**15,168**	-	**15,168**	**-**	**13,788**	**-**	**13,788**
- Receivables from operations with clients and banks	-	9,363	-	9,363	-	8,053	-	8,053
- Accrued income	-	5,497	-	5,497	-	5,615	-	5,615
- Receivables from operations with plastic cards	-	308	-	308	-	120	-	120
TOTAL	**-**	**895,125**	**2,885,607**	**3,976,416**	**-**	**122,889**	**2,143,323**	**2,489,927**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

34 Fair Value Disclosures (Continued)

In thousands of hryvnias	2014 Level 1	2014 Level 2	2014 Level 3	2014 Carrying value	2013 Level 1	2013 Level 2	2013 Level 3	2013 Carrying value
LIABILITIES								
Due to other banks	**-**	**1,417,500**	**-**	**1,500,790**	**-**	**546,789**	**-**	**577,787**
- Correspondent accounts of other banks	-	474,242	-	474,242	-	134,496	-	134,496
- Term placements and loans of other banks	-	943,258	-	1,026,548	-	412,293	-	443,291
Customer accounts	**-**	**3,589,894**	**-**	**3,611,697**	**-**	**2,759,390**	**-**	**2,788,022**
- Current/settlement accounts of legal entities	-	1,311,254	-	1,311,254	-	595,298	-	595,298
- Term deposits of legal entities	-	349,990	-	350,264	-	350,696	-	350,787
- Current/demand accounts of individuals	-	411,390	-	411,390	-	330,785	-	330,784
- Term deposits of individuals	-	1,517,260	-	1,538,789	-	1,482,611	-	1,511,153
Other financial liabilities	**-**	**24,015**	**-**	**24,015**	**-**	**15,063**	**-**	**15,063**
- Other accrued liabilities	-	10,572	-	10,572	-	8,281	-	8,281
- Transit accounts	-	11,455	-	11,455	-	5,501	-	5,501
- Provision for credit related commitments	-	996	-	996	-	499	-	499
- Other	-	992	-	992	-	782	-	782
Subordinated debt	**-**	**443,143**	**-**	**586,886**	**-**	**234,328**	**-**	**290,152**
TOTAL	**-**	**5,474,552**	**-**	**5,723,388**	**-**	**3,555,570**	**-**	**3,671,024**

The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. 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 weighted average interest rate for existing instruments with similar remaining maturity.

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

35 Presentation of Financial Instruments by Measurement Categories

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 financial assets with these measurement categories as of 31 December 2014:

In thousands of hryvnias	**Loans and receivables**	**Available for sale assets**	**Assets designated at FVTPL**	**Investment securities held to maturity**	**Total**
ASSETS					
Cash and cash equivalents and mandatory reserves	500,996	-	-	-	**500,996**
Securities at fair value through profit or loss	-	-	117,967	-	**117,967**
Due from other banks					
- Guarantee deposits	6,454	-	-	-	**6,454**
Loans and advances to customers					
- Corporate loans	1,972,173	-	-	-	**1,972,173**
- Loans to individuals - consumer loans	721,551	-	-	-	**721,551**
- Loans to individuals – mortgage loans	366,593	-	-	-	**366,593**
Reverse sale and repurchase agreements	35,079	-	-	-	**35,079**
Investment securities available for sale	-	809,288	-	-	**809,288**
Investment securities held to maturity	-	-	-	859,398	**859,398**
Other financial assets	15,168	-	-	-	**15,168**
Total financial assets	**3,618,014**	**809288**	**117,967**	**859,398**	**5,404,667**

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

In thousands of hryvnias	**Loans and receivables**	**Available for sale assets**	**Assets designated at FVTPL**	**Investment securities held to maturity**	**Total**
ASSETS					
Cash and cash equivalents and mandatory reserves	366,034	-	-	-	366,034
Securities at fair value through profit or loss	-	-	68,992	-	68,992
Due from other banks					
- Guarantee deposits	7,378	-	-	-	7,378
Loans and advances to customers					
- Corporate loans	1,479,077	-	-	-	1,479,077
- Loans to individuals - consumer loans	560,793	-	-	-	560,793
- Loans to individuals – mortgage loans	326,342	-	-	-	326,342
Investment securities available for sale	-	685,610	-	-	685,610
Investment securities held to maturity	-	-	-	102,549	102,549
Other financial assets	13,788	-	-	-	13,788
Total financial assets	**2,753,412**	**685,610**	**68,992**	**102,549**	**3,610,563**

As of 31 December 2014 and 31 December 2013, all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

36 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.

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

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	12,593	-	-
Gross amount of loans and advances to customers (contractual interest rate: in USD – 2.8%)	-	-	306
Impairment provisions for loans and advances to customers	-	-	(54)
Other assets	718	-	-
Correspondent accounts and overnight placements of other banks	448,964	-	-
Term placements and loans from other banks (contractual interest rate: in USD – 3.15%, in EUR – 0.15%)	1,008,101	-	-
Customer accounts (contractual interest rate: in USD: min. 0.1%, max. 4%; in EUR: 0.5%; in UAH: min. 0.1, max. 16%)	-	42,365	188
Subordinated debt (contractual interest rate: in USD – 1.0695%)	586,886	-	-
Other liabilities	77	446	1,055

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

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	-	-	7
Interest expense	(45,304)	(6,449)	9
Other income	-	19,975	
Provision for loan and investment impairment	-	-	(30)
Gain on initial recognition of the financial instrument	38,368	-	-
Fee and commission income	6	729	11
Fee and commission expense	(1,021)	-	-
Other expenses	(461)	(2,951)	-

At 31 December 2014, other rights and obligations with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Loan commitments received	99,082	-	-
Other commitments granted	25,003	-	-
Collateral received	-	-	601

As disclosed in Note 10, as at 31 December 2014 PKO BP SA pledged as collateral for a number of lending transactions cash deposits with other bank in the amount of UAH 185,123 thousand (31 December 2013: UAH 59,308 thousand).

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

36 Related Party Transactions (Continued)

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts lent to related parties during the year	-	-	-
Amounts repaid by related parties during the period	-	-	(34)

As disclosed in Note 32, in 2014 the Group received from its parent company (PKO BP S.A.) non-repayable financial assistance in the amount of USD 6,021 thousand (2013: USD 20,681) aimed to prevent incompliance with capital requirements. This financial assistance and related income tax in the amount of UAH 9,437 thousand (2013: UAH 32,041 thousand) were recognised in equity.

As described in Note 17, in 2014 the Group received from its parent company PKO BP S.A. a loan of USD 21,319 thousand at interest rate of 6-month USD LIBOR + 3% p.a. maturing in 3 years. The Group recognised a gain of UAH 38,368 thousand on initial recognition of the loan at rates below market. Finance expenses for the year ended 31 December 2014 include amortisation of gain from initial recognition of the loan at fair value in the amount of UAH 10,836 thousand.

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

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	5,632	-	-
Gross amount of loans and advances to customers (contractual interest rate: in USD – 2.8%)	-	-	178
Impairment provisions for loans and advances to customers	-	-	(24)
Other assets	619	-	-
Correspondent accounts and overnight placements of other banks	125,594	-	-
Term placements and loans from other banks (contractual interest rate: in USD – 3.17%, in EUR – 0.8%)	399,650	-	-
Customer accounts (contractual interest rate: in USD – 0.1% - 2.75%; in EUR – 0.5%; in PLN – 0.5%; in UAH – 0.1% - 20%)	-	30,989	1,046
Subordinated debt (contractual interest rate: in USD – 1.0695%)	290,152	-	-
Other liabilities	-	284	1,571

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

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	-	624	6
Interest expense	(11,378)	(2,511)	72
Other income	-	41	-
Reversal of provision for loan impairment	-	-	4
Fee and commission income	1	143	14
Fee and commission expense	(540)	(2,788)	-

At 31 December 2013, other rights and obligations with related parties were as follows:

36 Related Party Transactions (Continued)

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Loan commitments received	2,660	-	-
Loan commitments granted	24,881	-	10

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

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Amounts lent to related parties during the year	-	-	-
Amounts repaid by related parties during the period	-	(4,000)	(26)

Key management compensation is presented below:

	2014		2013	
In thousands of hryvnias	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	12,369	472	9,363	257
- Annual bonus	83	-	1,202	1,300
- Termination bonus	169	395	-	778
Post-employment benefits:				
- State pension and social security costs	675	192	585	185
Total	**13296**	**1,059**	**11,150**	**2,520**

Short-term benefits fall due wholly within twelve months after the end of the period in which management rendered the related services.

37 Events After the Reporting Period

In 2015 the negative trends of 2014 continued due to destruction of industrial enterprises and infrastructure in the Eastern Ukraine as a result of military actions, decrease in external demand, in particular, due to deterioration of trade relationships with the Russian Federation, deterioration of consumer and investment internal demand. After the reporting date, hryvnia significantly depreciated against major foreign currencies, in particular, exchange rate UAH/USD increased to UAH 21.62 per USD 1 as at 15 March 2015 compared to UAH 15.77 per USD 1 as at 31 December 2014.

The NBU discount rate was increased to 19.5% from 6 February 2015 (from 14%) and further increased to 30% from 3 March 2015.

In January 2015, inflation accelerated to 28.5% in annual terms as a result of devaluation of the national currency and high inflationary and devaluation expectations. Internal migration and economic downturn lead to narrowing of labour market and growing unemployment which, in turn, resulted in decrease in real wages of population.

All these factors had further negative impact on the Ukrainian banking system and as a result, in 2015 the National Bank of Ukraine assigned further 13 banks to the insolvent category.

As at 31 December 2014, the Group had corporate bonds held to maturity, which were issued by one of the above banks. As at the reporting date, the Group raised the provision for the outstanding balance of these corporate bonds at date when the issuing bank was assigned to the insolvent category to reflect the impact of subsequent events. Refer to Note 11.

On 11 March 2015, the Executive Board of the International Monetary Fund approved a four-year Extended Fund Facility programme for Ukraine in the amount exceeding USD 17 billion.