PJSC West Finance and Credit Bank

Financial Statements
31 December 2014

These financial statements contain 51 pages

Content

(in thousands of UAH)	*Note*	**31 December 2014**	31 December 2013
Assets			
Cash and cash equivalents	*5*	**197,068**	159,774
Restricted mandatory reserve with the National Bank of Ukraine	*5*	**-**	8,896
Due from banks	*6*	**1,939**	983
Loans and advances	*7*	**452,219**	326,932
Investment property	*8*	**4,497**	6,871
Deferred tax assets	*22*	**-**	317
Property, equipment and intangible assets	*9*	**2,320**	1,357
Other assets	*10*	**2,416**	787
Total assets		**660,459**	505,917
Liabilities			
Due to banks	*11*	**31,582**	124,753
Due to customers	*12*	**402,817**	215,954
Income tax payable		**2**	684
Deferred tax liability	*22*	**1,405**	-
Other liabilities	*13*	**2,305**	1,141
Subordinated debt	*14*	**75,813**	40,265
Total liabilities		**513,924**	382,797
Equity			
Share capital	*15*	**88,045**	88,045
Share premium and additional paid-in capital		**7,328**	7,328
Retained earnings		**51,162**	27,747
Total equity		**146,535**	123,120
Total liabilities and equity		**660,459**	505,917

Signed and authorised for issuance
27 April 2015

Mr. Adnan Anacali
Head of the Board

Mr. Igor Kuzmenko
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 51.

(in thousands of UAH)	*Note*	**31 December 2014**	31 December 2013
Interest income	*17*	**55,663**	37,966
Interest expense	*17*	**(26,169)**	(15,267)
Net interest income	*17*	**29,494**	22,699
Fee and commission income	*18*	**12,501**	8,694
Fee and commission expense	*18*	**(1,474)**	(815)
Gains less losses arising from dealing in foreign currencies		**17,528**	3,255
Gains less losses from foreign currency revaluation		**9,589**	(95)
(Provision for) recovery of impairment of loans and due from banks	*21*	**(3,052)**	1,656
Other operating income	*19*	**1,466**	5,404
Administrative and other operating expenses	*20*	**(37,082)**	(22,864)
Profit before tax		**28,970**	17,934
Income tax expense	*22*	**(5,555)**	(3,620)
Net profit and total comprehensive income		**23,415**	14,314
Earnings per share			
Basic and diluted earnings per share	*15*	**0.00027**	0.00016

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ПАТ "ВЕСТ ФАЙНЕНС ЕНД КРЕДИТ БАНК" Ідентифікаційний код 34575675

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 51.

(in thousands of UAH)	**2014**	2013
Operating activities		
Interest received	**53,098**	37,175
Interest paid	**(23,666)**	(13,664)
Fees and commissions received	**12,501**	8,694
Fees and commissions paid	**(1,474)**	(815)
Net receipts from operations with derivative financial instruments	**205**	3,951
Net receipts from dealing in foreign currencies	**17,528**	3,145
Other operating income received	**1,261**	311
General administrative and other operating expenses paid	**(35,125)**	(20,484)
Income tax paid	**(4,515)**	(4,248)
Cash flows from operating activities before change in operating assets and liabilities	**19,813**	14,065
Changes in operating assets and liabilities		
Change in restricted mandatory reserve balances with the National Bank of Ukraine	**8,896**	(3,252)
Change in due from banks	**(956)**	494
Change in loans and advances	**(54,148)**	(142,551)
Change in other assets	**(1,413)**	16
Change in due to banks	**(92,982)**	17,187
Change in due to customers	**110,510**	130,551
Change in other liabilities	**769**	57
Cash flows from (used in) operating activities	**(9,511)**	16,567

(continued)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 51.

Investing activities		
Acquisition of property, equipment and intangible assets	**(1,560)**	(128)
Proceeds from disposals of investment property	**1,409**	-
Cash flows used in investing activities	**(151)**	(128)
Effect of changes in foreign exchange rate on cash and cash equivalents	**46,956**	-
Net increase (decrease) in cash and cash equivalents	**(9,662)**	16,439
Cash and cash equivalents as at 1 January	**159,774**	143,335
Cash and cash equivalents as at 31 December	**197,068**	159,774

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The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 51.

(in thousands of UAH)	**Share capital**	**Share premium and additional paid in capital**	**Retained earnings**	**Total**
Balance as at 1 January 2013	**88,045**	**7,328**	**13,433**	**108,806**
Total comprehensive income	-	-	**14,314**	**14,314**
Balance as at 31 December 2013	**88,045**	**7,328**	**27,747**	**123,120**
Total comprehensive income	-	-	**23,415**	**23,415**
Balance as at 31 December 2014	**88,045**	**7,328**	**51,162**	**146,535**

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The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 51.

1 Background

(a) Organization and operations

Public Joint Stock Company "West Finance and Credit Bank" (the Bank) was established as the closed joint stock company according to Ukrainian legislation and registered by the National Bank of Ukraine (the NBU) on 4 October 2006. In January 2009, the Bank was reorganised into open joint-stock company. In January 2011, the Bank was re-registered in the form of a public joint stock company.

The principal activities of the Bank are lending, deposits taking, cash and settlement operations, operations with securities and foreign exchange, as well as other services. The Bank's activities are regulated by the National Bank of Ukraine.

The head office is located at 17 Kovpaka St., Kyiv, Ukraine.

As at 31 December 2014, the Bank has one branch (31 December 2013: 1) and 73 employees (31 December 2013: 64 employees).

(b) Ukrainian business environment

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings.

In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. In March 2014, various events in Crimea led to the annexation of the Autonomous Republic of Crimea by the Russian Federation, which is not recognised by Ukraine and the international community. This event resulted in a significant deterioration of the relationships between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in Donetsk and Lugansk regions escalated into military clashes and armed conflict between armed supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces. As at the date these financial statements were authorised for issue, the instability and unrest continue, and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics. As a result, Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

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

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

2 Basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for derivative financial instruments presented in other assets, which are stated at fair value.

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH). Consequently, the functional and presentation currency for the purposes of these financial statements is the Ukrainian hryvnia.

Financial information presented in UAH is rounded to the nearest thousand.

(d) Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies is as follows:

Critical judgements

The Bank's accounting policies allow offsetting of assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Management believes that these transactions are in substance foreign currency exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivatives (note 3c). Accordingly, the gross fair value of foreign currency exchange swaps is recognised as an asset when the fair value is positive and as a liability when the fair value is negative. The net amounts of receivables/payables on settlement (having the legal form of loans due from and deposits due to the same banks) are offset and not recognised on the balance sheet. Refer to note 23 the information about maximum exposure to credit risk arising from these derivative instruments (i.e. gross amount of receivable upon settlement of loans due from banks). Refer to note 24 the information about exposure to maximum liquidity risk (i.e. gross amount of payable upon settlement of deposits due to banks).

Impairment of loans and advances

Management estimates impairment by assessing the likelihood of repayment of loans and advances based on an analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Factors taken in consideration when estimating impairment of loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Note 7 contain a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

3 Significant accounting policies

The accounting policies set out below are consistently applied to in the preparation of these financial statements, except as stated otherwise. Changes in accounting policies are described below.

(a) Changes in accounting policies

The Bank has adopted the below listed new standards and amendments, including any subsequent resulting changes to other standards. The official publication date of these new pronouncements is 1 January 2014:

- *Investment companies* (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements)
- *Offsetting Financial Assets and Liabilities* (Amendments to IAS 32 Financial Instruments: Disclosures)
- *Disclosure of Recoverable Amount of Non-Financial Assets* (Amendments to IAS 36 Impairment of Assets)
- *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 32 Financial Instruments: Recognition and Measurement)
- *IFRIC 21 Levies*

The substance and effects of the above amendments are described in details below.

(i) Offsetting financial assets and financial liabilities

Amendments to IAS 32 Financial Instruments: Disclosures and Presentation of Information – Offsetting Financial Assets and Financial Liabilities do not establish any new rules of offsetting financial assets and financial liabilities, rather, they explain the offsetting criteria to prevent any inconsistencies in the process of application of the amendment. The amendments stipulate that the entity has a legally enforceable right to the offset, unless such right depends on any future event. This right should be applied in the process of ordinary business and in cases of default, insolvency or bankruptcy of a legal entity and any other counterparties.

The Bank does not expect that this amendment will have any impact on the financial statements.

(ii) Disclosure of the Recoverable Amount of Non-Financial Assets

This amendment cancels the requirement to disclose the recoverable amount if the cash generating unit contains goodwill or intangible assets with indefinite useful life, but no impairment occurred.

(iii) Novation of Derivatives and Continuation of Hedge Accounting

This amendment prescribes continuation of hedge accounting to the extent that novation of a derivative that represents a hedging instrument meets certain criteria. The Bank does not expect that this amendment will not have any impact on the financial statement, since it does not perform hedge accounting according to the requirements of IFRS.

(iv) IFRIC 21 Levies

According to IFRIC 21, an entity should recognize a liability to pay a levy if it pursues business activity requiring payment of levies. As regards the levy payable when certain minimum threshold is reached, the amendment explains that the liability should not be calculated through the moment of overpassing certain minimum threshold.

(b) Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to hryvnias at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The UAH is not a convertible currency outside Ukraine and, accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate.

In March 2014, the NBU announced a transition to a floating foreign exchange rate regime following a significant devaluation of the national currency to major international currencies. Subsequently, Ukraine has experienced significant deficit of foreign currency inflows. Additionally, many Ukrainian banks have experienced a shortage of liquid funds due to withdrawals of deposits and severe constraints in access to domestic and external market funding. The official rates of the NBU may not necessarily represent the rates at which the foreign currency is available at the reporting date. In practice, market participants may require significant additional fees and commissions to the official rates of the NBU in order to ensure supply of the necessary amounts of foreign currency, which may otherwise not be readily available at the market.

Despite the above, management believes that the official rates of the NBU provide the best approximation for the rates effective at the reporting date. Hence, in preparation of these financial statements management applied the NBU official exchange rates derived from officially published source for translation of transactions and balances in foreign currencies.

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

Currency	**31 December 2014**	31 December 2013
US dollar	**15.77**	7.99
EUR	**19.23**	11.04

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

Management may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Financial instruments at fair value through profit or loss comprise derivative financial instruments which mainly relate to forward exchange contracts.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that management:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables comprise loans and advances, balances due from banks, mandatory reserves with the NBU and cash and cash equivalents.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intention and ability to hold to maturity, other than those that:

- management upon initial recognition designates as at fair value through profit or loss
- management designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Available-for-sale financial assets comprise government and corporate bonds.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be on sale or other disposal, except for:

- loans and receivables that are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method, and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or equity (if financial assets or liabilities originated with the shareholders acting in their capacity as shareholders) as gains or losses on origination of financial instrument at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expenses is recorded in profit or loss using the effective interest method.

(iv) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

(v) Gains or losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(viii) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost and any difference between cost and redemption value is recognised in profit or loss over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is immediately recognised in profit or loss.

(d) Impairment

(i) Calculation of recoverable amount

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and advances and other receivables (loans and receivables). Management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss.

The 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.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Available-for-sale assets

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(ii) Resersal of impairment

An impairment loss in respect of a held-to-maturity asset or a loan or a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Credit related commitments

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

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

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

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

(e) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortisation and impairment losses. Depreciation and amortisation is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortisation commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Furniture and equipment	5 years
Motor vehicles	5 years
Intangible assets	3 years

Expenditures for leasehold improvements are recognised as assets and charged to profit or loss on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

(g) Leases

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership, are classified as expenses when incurred.

(h) Income and expense recognition

Interest and similar income and interest expense and similar charges are recognised in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognised on accrual basis. Other fees, commission and other income are recognised when the corresponding service is provided/received.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Expenses incurred in connection with loan facilitation are amortised over the life of the loan as an adjustment to interest income.

(i) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost for these contributions is recognised in profit or loss when contributions are due and is included in salaries and employee benefits as part of administrative and other operating expenses.

(k) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and balances due from banks with original contractual maturity within three months. As at 31 December 2013, due to existence of certain restrictions on their use, the Bank did not recognise the mandatory reserves held on a special account with the NBU within cash and cash equivalents in the statement of financial position and statement of cash flows. As at 31 December 2014 there were no such restrictions, therefore the mandatory reserves held on a special account with the NBU were recognised within cash and cash equivalents.

(l) Offsetting

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

(m) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement

purposes, will come into effect not earlier than 1 January 2015. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Segment reporting

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

There are no customers from which revenues exceed 10% of total external revenue.

Substantially all revenues from external customers for the years ended 31 December 2014 and 2013 relate to residents of Ukraine. As at 31 December 2014, substantially all of assets are located in Ukraine, except for cash and cash equivalents amounting to UAH 70,222 thousand or 10.6% of total assets (31 December 2013: UAH 21,309 thousand or 4.2% of total assets), which are placed in Germany, Switzerland, Turkey and the USA.

5 Cash and cash equivalents

Cash and cash equivalents as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Cash	**10,957**	7,619
Balances with the NBU	**84,927**	109,414
Current accounts placed with other banks	**101,184**	42,741
Total	**197,068**	159,774

The following table represents an analysis of current accounts in other banks balances and balances due from banks with contractual maturity three months or less by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December:

(in thousands of UAH)	**2014**	2013
Current accounts:		
BBB- to A+	**70,222**	21,309
BB- to BB+	**11**	62
CCC- to CCC+	**30,951**	21,370
	101,184	42,741

As at 31 December 2014, the two largest balances on current accounts placed with other banks amount to UAH 94,844 thousand or 93.7% of the gross exposure of current accounts placed with other banks (31 December 2013: UAH 36,099 thousand or 84.5%).

Restricted mandatory reserves with the National Bank of Ukraine

In accordance with Resolution No. 820 "On amending the procedure for establishment and maintenance of mandatory reserves" of the Management Board of the National Bank of Ukraine dated 18 December 2014, the Bank puts aside and maintains mandatory reserves on its correspondent account with the National Bank of Ukraine in compliance with statutory ratios in effect in respective periods. The amount of the mandatory reserve comprised UAH 5,981 thousand as at 31 December 2014. Furthermore, the Bank is allowed to use assets recorded in Note 5 for the purpose of establishment of the mandatory reserves that should be established and maintained on its correspondent account with the National Bank of Ukraine. As the Bank had the right to use mandatory reserve balances with the National Bank of Ukraine in full and, therefore, they were classified as cash and cash equivalents as at 31 December 2014.

In accordance with the NBU Board Resolution "On Certain Issues of Banking Activities" No. 529 of 26 August 2014, as a result of significant deterioration of the economic situation due to the annexation of the Crimea and military clashes in Donetsk and Lugansk regions, the NBU allowed banks not to maintain the mandatory reserve balance on the correspondent account with the NBU to the extent that the banks comply with certain requirements set out in the Resolution. The Bank complied with the mandatory reserve requirements as at 31 December 2014.

Effective from October 2013, Ukrainian banks were required to deposit 40% of the mandatory reserve balance for the previous month on a separate account with the NBU. The mandatory reserve balance is subject to interest at the rate of 30% of the NBU's official discount rate.

As at 31 December 2013, the Bank had to comply with mandatory reserve requirements of the NBU and, therefore, mandatory reserve balances with the National Bank of Ukraine were not classified as cash and cash equivalents, as the Bank could not use these balances.

6 Due from banks

Balances due from banks as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Deposits placed with contractual maturity over three month	**1,939**	983
Total	**1,939**	983

The following table represents an analysis of due from banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December:

(in thousands of UAH)	**2014**	2013
Deposits placed with other banks:		
CCC- to CCC+	**1,939**	983
Total	**1,939**	983

As at 31 December 2014, deposits placed with other banks amounting to UAH 1,939 thousand, or 100% of total amount due from banks, are placed with two banks (31 December 2013: UAH 983 thousand, or 100.0%).

As at 31 December 2014 and 2013, balances due from banks are neither impaired nor past due.

7 Loans and advances

Loans and advances as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Corporate	**453,952**	327,155
Retail	**1,698**	842
Total loans, gross	**455,290**	327,997
Provision for impairment (note 21)	**(3,071)**	(1,065)
Total	**452,219**	326,932

Loans and advances include principal amounts and accrued interest as at 31 December 2014 and 2013.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2014 would be UAH 4,522 thousand lower/higher (31 December 2013: UAH 3,269 thousand).

(a) Significant credit risk concentration

As at 31 December 2014, loans and advances to the ten largest borrowers total UAH 352,865 thousand, and represent 77.5% of the total gross loans and advances (31 December 2013: UAH 252,388 thousand or 76.9%).

(b) Loan impairment

Loan impairment as at 31 December 2014 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans				
Loans with specific impairment	**23,117**	**(1,804)**	**21,313**	**7.8%**
Loans without specifically identified impairment	**430,475**	**(820)**	**429,655**	**0.2%**
Total corporate loans	**453,592**	**(2,624)**	**450,968**	**0.6%**
Retail loans				
Loans without specifically identified impairment	**1,698**	**(447)**	**1,251**	**26.3%**
Total retail loans	**1,698**	**(447)**	**1,251**	**26.3%**
Total	**455,290**	**(3,071)**	**452,219**	**0.7%**

Loan impairment as at 31 December 2013 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans				
Loans with specific impairment	2,039	(208)	1,831	10.2%
Loans without specifically identified impairment	325,116	(776)	324,340	0.2%
Total corporate loans	327,155	(984)	326,171	0.3%
Retail loans				
Loans with specific impairment				
Loans without specifically identified impairment	842	(81)	761	9.6%
Total retail loans	842	(81)	761	9.6%
Total	327,997	(1,065)	326,932	0.3%

As at 31 December 2014, accrued interest income on impaired loans and advances amounted to UAH 276 thousand (31 December 2013: UAH 66 thousand).

During the year ended 31 December 2014, written off loans amounted to UAH 1,046 thousand (31 December 2013: nil).

The impairment allowance for individually significant loans is determined as the difference between the gross loan exposure and expected recoverable amount of this exposure. The expected recoverable amount of the exposure is determined as sum of net present value of future cash flows from loan recovery and net present value of expected future cash flows from collateral realisation.

The collective impairment allowance is determined based on appropriate empirical information. The Bank utilises a statistical analysis of historical trends of default and amount of consequential loss, based on the delinquency of loans within a portfolio of homogeneous loans. Other historical data and current economic conditions are also evaluated when calculating the appropriate level of impairment allowance required for covering inherent losses. Default probability rates and loss rates are regularly benchmarked against actual outcomes to ensure they remain appropriate.

In determining the impairment allowance for loans and advances, management makes the following key assumptions:

- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past 12 months
- a discount of 30% to 70% applied to the originally appraised value of collateral
- gross value of collateral multiplied by collateral haircut is discounted at loan original effective interest rate till expected date of collateral realisation

- a delay of 12-18 months in obtaining proceeds from foreclosure of collateral from non-performing borrowers.

(c) Collateral

The following table provides information on collateral as at 31 December, by type of collateral. The table shows the amounts of secured loans rather than the fair value of collateral.

(in thousands of UAH)	**2014**	2013
Real estate	**336,505**	248,753
Motor vehicles	**42,747**	43,921
Other	**60,789**	29,487
Unsecured	**15,249**	5,836
Total	**455,290**	327,997

Other collateral is primarily represented by production facilities.

The Bank's lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

Although collateral can be an important mitigation of credit risk, it is the Bank's policy to lend on the basis of the customer's capacity to repay, rather than rely primarily on the value of collateral offered. Depending on the customer's standing and the type of product, loans may be provided without collateral.

Corporate loans

As at 31 December 2014, estimated difference between the Bank's actual impairment losses on commercial loans and what they would have been without any collateral is UAH 15,850 thousand (31 December 2013: UAH 1,123 thousand).

Quality of loans and advances as at 31 December 2014 is as follows:

(in thousands UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans and advances				
Not overdue	**396,004**	**2,624**	**393,382**	**0.7%**
Overdue	**57,588**	**-**	**57,586**	**0.0%**
Total corporate loans and advances	**453,592**	**2,624**	**450,968**	**0.7%**
Retail loans and advances				
Not overdue	**1,249**	**5**	**1,244**	**0.4%**
Overdue	**449**	**442**	**7**	**98.4%**
Total retail loans and advances	**1,698**	**447**	**1,251**	**98.8%**

Quality of loans and advances as at 31 December 2013 is as follows:

(in thousands UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans and advances				
Not overdue	325,118	776	324,342	0.2%
Overdue	2,037	208	1,830	10.2%
Total corporate loans and advances	327,155	984	326,172	0.3%
Retail loans and advances				
Not overdue	669	42	627	6.3%
Overdue	173	39	133	22.5%
Total retail loans and advances	842	81	761	9.6%

For corporate loans without specifically identified impairment with net carrying value of UAH 341,964 thousand (31 December 2013: UAH 324,340 thousand), the fair value of collateral was estimated at the loan origination date and adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Retail loans

Retail loans are secured with the underlying housing and commercial real estate. Mortgage and car loans are assessed for impairment on a collective and individual basis depending on the nature of impairment identified. Collateral on mortgage loans is valuated as at loan origination date, and the Bank monitors changes in property value as they are critical in the assessment of collective impairment. If any indication of impairment exists, the Bank obtains individual valuation of collateral. For car loans, management believes that the fair value of collateral is approximately equal to the carrying amount of individual loans as at the reporting date. Subsequent to loan origination, the Bank revalues collateral to current value considering estimated changes in prices and aging of cars.

As at 31 December 2014, an estimated difference between actual impairment losses on retail loans with specific impairment and what they would have been without any collateral is nil (31 December 2013: nil).

(d) Corporate loans by industry

Corporate loans by industry as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Trade	**212,701**	139,147
Production	**91,896**	59,114
Agriculture	**50,275**	29,332
Car rent	**39,851**	36,955
Financial services	**31,808**	23,959
Real estate	**8,702**	17,136
Construction	**2,796**	6,091
Other	**15,563**	15,421
Total	**453,592**	327,155

8 Investment property

Movement in investment property during the year ended 31 December is as follows:

(in thousands of UAH)	**2014**	2013
Cost as at 1 January	**7,499**	6,156
Additions	**-**	1,343
Disposal	**(2,102)**	-
Cost as at 31 December	**5,397**	7,499
Accumulated depreciation as at 1 January	**(628)**	(396)
Depreciation	**(272)**	(232)
Accumulated depreciation as at 31 December	**(900)**	(628)
Net book value as at 31 December	**4,497**	6,871

As at 31 December 2014 and 2013, the fair values of investment property are estimated to approximate their carrying values.

During the year ended 31 December 2013, the Bank foreclosed residential real estate in the amount of UAH 1,343 thousand previously pledged as collateral for a written off retail loan. The Bank intends to keep the property for capital appreciation purposes.

Useful life of investment property is 25 years. Investment property is depreciated using straight-line method over useful life. During the year ended 31 December 2014, the Bank disposed non-residential premises amounting to UAH 2,102 thousand for a consideration received of UAH 1,409 thousand. The loss on disposal of UAH 693 thousand is recognised within administrative and other operating expenses (Note 20).

9 Property, equipment and intangible assets

Movement of property, equipment and intangible assets for the year ended 31 December 2014 is as follows:

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2014	**80**	**3,291**	**1,095**	**836**	**5,302**
Additions	**-**	**627**	**864**	**69**	**1,560**
Disposals	**-**	**-**	**(144)**	**-**	**(144)**
31 December 2014	**80**	**3,918**	**1,815**	**905**	**6,718**
Accumulated depreciation and amortisation					
1 January 2014	**80**	**2,567**	**463**	**835**	**3,945**
Depreciation and amortisation	**-**	**322**	**260**	**15**	**597**
Disposals	**-**	**-**	**(144)**	**-**	**(144)**
31 December 2014	**80**	**2,889**	**579**	**850**	**4,398**
Net book value as at 31 December 2014	**-**	**1,029**	**1,236**	**55**	**2,320**

Movement of property, equipment and intangible assets for the year ended 31 December 2013 is as follows:

(in thousands of UAH)	Leasehold improvements	Furniture and equipment	Motor vehicles	Intangible assets	Total
Cost					
1 January 2013	80	3,246	1,095	836	5,257
Additions	-	128	-	-	128
Disposals	-	(83)	-	-	(83)
31 December 2013	80	3,291	1,095	836	5,302
Accumulated depreciation and amortisation					
1 January 2013	80	2,293	223	820	3,416
Depreciation and amortisation	-	357	240	15	612
Disposals	-	(83)	-	-	(83)
31 December 2013	80	2,567	463	835	3,945
Net book value as at 31 December 2013	-	724	632	1	1,357

As at 31 December 2014, historical cost of fully depreciated property and equipment and fully amortised intangible assets amounts to UAH 3,054 thousand (31 December 2013: UAH 2,786 thousand).

The Bank has no property and equipment restricted by law as to their ownership, use and disposal, pledged property, equipment and intangible assets, temporarily unused property and equipment, as well as property and equipment withdrawn from use. There are no intangible assets subject to restrictions of ownership rights, and there are no self-constructed intangible assets. During the reporting period there are no increases or decreases resulted from revaluations, as well as from impairment losses recognised or reversed directly in equity.

10 Other assets

Other assets, net of provision for impairment, as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Prepayments	**994**	312
Materials and supplies	**59**	60
Derivative financial instruments (note 23)	**58**	127
Foreclosed machinery	**216**	-
Other	**1,089**	288
Total	**2,416**	787

As at 31 December 2014, the provision for impairment of other assets amounts to UAH 6,224 thousand (31 December 2013: UAH 6,224 thousand). The balances in the table above are shown net of this provision.

11 Due to banks

Balances due to banks as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Deposits and balances due to banks:		
OECD countries	**-**	16,012
Domestic	**31,582**	108,741
Total	**31,582**	124,753

As at 31 December 2014, balances due to banks amounting to UAH 31,582 thousand, or 100% of total due to banks, are placed by two banks (31 December 2013: UAH 55,913 or 44.8% of total due to banks are placed by two banks).

12 Due to customers

Due to customers as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Current accounts:		
Corporate	**228,728**	106,750
Retail	**7,811**	7,364
Total current accounts	**236,539**	114,114
Deposits:		
Corporate	**112,014**	64,698
Retail	**54,264**	37,142
Total deposits	**166,278**	101,840
Total	**402,817**	215,954

As at 31 December 2014 current accounts of the five largest customers total UAH 66,157 thousand, or 28% of total current accounts (31 December 2013: UAH 78,480 thousand, or 68.8%).

As at 31 December 2014, deposits of the five largest customers total UAH 99,485 thousand, or 59.8% of total deposits (31 December 2013: UAH 76,702 thousand, or 75.3%).

13 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Provision for unused vacations	**1,053**	658
Accounts payable	**800**	279
Taxes payable, other than corporate income tax	**377**	13
Other	**75**	191
Total	**2,305**	1,141

14 Subordinated debt

In 2008, the Bank received from the shareholder, JSC "ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ", a subordinated loan denominated in US dollars amounting to USD 5,000 thousand with a nominal interest rate of 5.5%. The principal amount of this loan was initially repayable in August 2013. In 2011, the maturity of the loan was extended until July 2017. In 2014, the maturity of the loan was extended until July 2020.

This loan was initially recognised at fair value determined by management as the present value of future payments under the loan discounted using a market rate of interest for similar instruments.

At initial recognition, the difference of UAH 5,901 thousand between the fair value of the loan amounting to UAH 18,099 thousand and total proceeds from the loan amounting to UAH 24,000 thousand is recognised as additional paid-in capital in the statement of changes in equity. Subsequent to initial recognition, the difference between the fair value and the nominal value is amortised in the statement of comprehensive income over the term of the loan using the effective interest method.

In 2011, the Bank received from the shareholder, JSC "ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ", a subordinated loan denominated in US dollars amounting to USD 500 thousand with a nominal interest rate of 6.1%. The loan was initially repayable in July 2016. In 2014, the maturity of the loan was extended until July 2020.

Subordinated debt includes principal amount and accrued interest as at 31 December 2014 and 2013.

15 Share capital

Share capital as at 31 December is as follows:

	2014		2013	
(in thousands of UAH)	**Number of shares**	**Amount**	Number of shares	Amount
Shares authorised, issued and fully paid in	**88,045,200**	**88,045**	88,045,200	88,045

The nominal value of an ordinary share is UAH 1 per share as at 31 December 2014 and 2013. All ordinary shares have equal voting, dividend and capital repayment rights. No dividends were declared and paid in 2014 and 2013.

During the years ended 31 December 2014 and 2013, weighted average number of shares corresponds to the number of shares in the above table. There were no dilutive shares.

In accordance with Ukrainian legislation, the distributable reserves are limited to the balance of retained earnings determined in accordance with legislative and regulatory requirements.

Calculation of basic earnings per one share, as presented below, is based on profit for the year, owned by holders of ordinary shares and the average weighted number of outstanding shares totaling to 88,045 thousand for years ended as at 31 December 2014 and 2013. The Bank has no potential ordinary dilutive shares.

(in thousands of UAH)	**2014**	**2013**
Profit for the period owned by holders of the Bank's ordinary shares	23,415	14,314
Average number of outstanding shares for the period (thousand shares)	88,045,200	88,045,200
Basic and diluted earnings per ordinary share	**0.00027**	**0.00016**

16 Commitments and contingencies

(a) Guarantees

As at 31 December 2014 and 2013, there are no guarantees issued by the Bank.

(b) Operating lease commitments

The Bank leases operational premises in the normal course of business. Future payments on non-cancellable leases as at 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Within one year	**307**	107
	307	107

(c) Commitments to extend credit

The Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and loan facilities. The total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. As at 31 December 2014, irrevocable commitments to extend credit amount to UAH 672 thousand (31 December 2013: UAH 4,348 thousand).

(d) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(e) Tax contingency

The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

(f) Litigation

The Bank is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on financial position or results of operations.

17 Interest income and expense

Interest income and expense for the year ended 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Loans and advances	**54,168**	34,148
Due from banks	**1,495**	3,771
Other	**-**	47
Total interest income	**55,663**	37,966
Deposits	**(11,091)**	(4,573)
Current accounts	**(7,579)**	(4,110)
Subordinated debt	**(5,442)**	(3,446)
Due to banks	**(2,057)**	(3,138)
Total interest expense	**(26,169)**	(15,267)
Net interest income	**29,494**	22,699

Interest income on loans and advances with specific impairment amounts to UAH 11,412 thousand for the year ended 31 December 2014 (31 December 2013: UAH 585 thousand).

18 Fee and commission income

Fee and commission income for the year ended 31 December is as follows:

(in thousands of UAH)	**2014**	2013
Fee and commission income:		
Currency exchange	**5,476**	3,485
Payments and cash withdrawals	**4,182**	3,316
Other	**2,842**	157
Total fee and commission income	**12,501**	8,694
Fee and commission expense:		
Payments and cash withdrawals	**(1,391)**	(731)
Other	**(83)**	(84)
Total fee and commission expense	**(1,474)**	(815)

19 Other operating income

(in thousands of UAH)	**2014**	2013
Proceeds from previously written-off loans	**1,046**	1,546
Net result from operations with derivative financial instruments	**205**	3,750
Other	**215**	108
Total other operating income	**1,466**	5,404

20 Administrative and other operating expenses

Administrative and other operating expenses for the year ended 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Salary and employee benefits	**19,157**	12,927
Rent and maintenance of premises	**5,333**	1,677
Taxes other than on income and other charges	**3,527**	743
Communication and information	**2,320**	1,882
Legal and consulting services	**1,347**	393
Stationary and office consumables	**1,094**	816
Repairs and maintenance of property and equipment	**874**	664
Depreciation and amortization	**869**	844
Loss on disposal of investment property	**693**	-
Security	**170**	166
Business trips	**150**	154
Transportation	**52**	32
Advertising and marketing	**33**	33
Changes in net realisable value of foreclosed curtain fabric	**-**	1,492
Other	**1,463**	1,042
Total	**37,082**	22,864

21 Provision for impairment

The following is a schedule of movements in provision for impairment for the year ended 31 December:

(in thousands of UAH)	**2014**	2013
Balance as at 1 January	**(7,289)**	(7,453)
Charge of (provision for) impairment:		
Loans and advances	**(3,052)**	1,656
Other assets (note 10)	**-**	(1,492)
Charge of (provision for) impairment charged to comprehensive income	**(3,052)**	164
Loans and advances written off (Note 7)	**1,046**	-
Other assets written off	**-**	-
Balance as at 31 December	**(9,295)**	(7,289)
Balance as at 31 December consists of provision for impairment of:		
Loans and advances	**(3,071)**	(1,065)
Other assets	**(6,224)**	(6,224)

22 Income tax expense

The statutory income tax rate in 2013 is 19 %, in 2014 and thereafter – 18%.

The components of income tax expense for the year ended 31 December are as follows:

(in thousands of UAH)	**2014**	2014
Current tax expense	**3,833**	3,938
Deferred tax expense (benefit)	**1,722**	(318)
Total tax expense	**5,555**	3,620

The difference between the total expected income tax expense computed by applying the statutory income tax rate to profit before tax and the reported income tax expense is as follows:

	Year ended 31 December			
(in thousands of UAH)	**2014**	**2014**	2013	2013
Profit before tax	**28,970**	**100%**	17,934	100.0%
Computed expected income tax expense at statutory rate	**5,211**	**18.0%**	3,407	19.0%
Non-deductible expenses	**344**	**1.2%**	196	1.1%
Effect of decrease in income tax rate	**-**	**-**	17	0.1%
Effective income tax expense	**5,555**	**19.2%**	3,620	20.2%

(a) Movements in recognised temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2014 are attributable to the items detailed as follows:

(in thousands of UAH)	**1 January 2014** *Asset (liability)*	**Recognised through profit or loss** *Benefit (charge)*	**31 December 2014** *Asset (liability)*
Due from banks	**(2)**	**2**	**-**
Loans and advances	**(377)**	**(274)**	**(651)**
Investment property	**100**	**4**	**104**
Other assets	**1,119**	**(8)**	**1,111**
Subordinated debt	**(637)**	**(1,402)**	**(2,039)**
Other liabilities	**114**	**(44)**	**70**
Total	**317**	**(1,722)**	**(1,405)**

Deferred tax assets and liabilities as at 31 December 2013 are attributable to the items detailed as follows:

(in thousands of UAH)	**1 January 2013** *Asset (liability)*	**Recognised through profit or loss** *Benefit (charge)*	**31 December 2013** *Asset (liability)*
Due from banks	(167)	165	(2)
Loans and advances	(117)	(260)	(377)
Investment property	75	25	100
Other assets	896	223	1,119
Subordinated debt	(803)	166	(637)
Other liabilities	115	(1)	114
Total	(1)	318	317

23 Derivative financial instruments at fair value through profit or loss

Derivative financial instruments relate mainly to forward foreign currency exchange contracts and interbank swaps.

Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivative financial instruments. Refer to note 2(d) for a description of critical accounting judgement made by the management regarding these financial instruments.

The table below sets out gross amounts of receivable and payable upon settlement of amounts of forward foreign currency exchange derivative contracts and of loans due from and deposits due to banks. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the financial instruments:

(in thousands of UAH)	**2014** **Forward currency exchange contracts**	2013 Forward currency exchange contracts
UAH receivable	**37,671**	95,936
USD receivable	**58,892**	-
UAH payable	**-**	-
USD payable	**(37,845)**	(75,934)
EUR payable	**(58,660)**	(19,875)
Fair value of assets (note 10)	**58**	127
Fair value of liabilities (note 13)	**-**	-
Maximum exposure to credit risk (gross amount receivable)	**96,563**	95,936

24 Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management framework

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(b) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances and investment securities. The maximum credit risk exposure is generally net carrying amounts of instruments as at end of the reporting period.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 7.

The Bank has to comply with varying NBU regulations that limit exposure to companies, groups of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

Corporate lending

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail lending

The Bank ceased its retail lending activities. The Bank plans to grant retail loans only in exceptional cases and will concentrate on collection of existing retail loans.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of overdue payments and other information obtained by the Bank. In light of this information the borrower's internal credit rating may be revised.

The maximum exposure to off-balance sheet credit risk at 31 December is as follows:

(in thousands of UAH)	**2014**	2013
Irrevocable credit lines (note 16(c))	**672**	4,348
Gross amount receivable on derivatives (note 23)	**96,563**	95,936
Total off-balance sheet exposure	**97,235**	100,284

(c) Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(d) Foreign currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of its portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under regulatory provisions of the NBU, however, the calculation of open currency position under regulatory provisions differs from the below table.

Foreign currency positions as at 31 December 2014 are as follows:

(in thousands of UAH)	**USD**	**EUR**	**Other**
Assets			
Cash and cash equivalents	**69,131**	**34,449**	**13**
Due from banks	**1,939**	**-**	**-**
Loans and advances	**219,191**	**40,553**	**-**
Total assets	**290,261**	**75,002**	**13**
Liabilities			
Due to banks	**(31,582)**	**-**	**-**
Due to customers	**(193,457)**	**(18,765)**	**(11)**
Subordinated debt	**(75,813)**	**-**	**-**
Total liabilities	**(300,852)**	**(18,765)**	**(11)**
Net balance sheet position	**(10,591)**	**56,237**	**2**
Derivatives: forward foreign currency exchange contracts (note 23)	**21,047**	**(58,660)**	**-**
Net long (short) position	**10,456**	**(2,423)**	**2**

Foreign currency positions as at 31 December 2013 are as follows:

(in thousands of UAH)	USD	EUR	Other
Assets			
Cash and cash equivalents	38,283	5,765	65
Due from banks	983	-	-
Loans and advances	220,261	25,703	-
Total assets	259,527	31,468	65
Liabilities			
Due to banks	(38,002)	(8,835)	-
Due to customers	(102,336)	(2,528)	(49)
Subordinated debt	(40,265)	-	-
Total liabilities	(180,603)	(11,363)	(49)
Net balance sheet position	78,924	20,105	16
Derivatives: forward foreign currency exchange contracts (note 23)	(75,934)	(19,875)	-
Net long position	2,990	230	16

Other currencies are mainly represented by Russian roubles.

As at 31 December, a 50 percent weakening of the Ukrainian hryvnia against the following currencies would have decreased net profit for the year ended 31 December and total equity as at 31 December by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of UAH)	**2014**	2013
USD	**4,287**	1,226
EUR	**(993)**	94
Other	**1**	7

As at 31 December, a 50 percent strengthening of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the net profit and total equity to the amount shown above, on the basis that all other variables remain constant.

(e) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

The average effective interest rates of major interest bearing assets and liabilities as at 31 December are as follows:

	2014			2013		
	UAH	**USD**	**EUR**	UAH	USD	EUR
Cash and cash equivalents	**0.1%**	**-**	**-**		0.7%	-
Due from banks	**-**	**0.3%**	**-**	-	0.3%	-
Loans and advances	**20.7%**	**10.5%**	**9.8%**	20.4%	9.5%	8.9%
Due to banks	**6.0%**	**10.0%**	**6.0%**	11.4%	4.8%	6.1%
Due to customers	**16.8%**	**7.2%**	**7.0%**	18.0%	6.4%	5.9%
Subordinated debt	**-**	**9.1%**	**-**	-	9.2%	-

The Bank does not have any floating rate instruments. The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rate at the reporting date would not affect profit or loss.

(f) Liquidity risk

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

Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, sells assets such as securities, regulates its interest rate policy and strives to reduce expenses.

The contractual remaining maturities of non-derivative financial assets and liabilities, excluding interest payments, as at 31 December 2014 are as follows:

Description *(in thousands of UAH)*	**Maturity periods** Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Assets						
Cash and cash equivalents	**197,068**	**-**	**-**	**-**	**-**	**197,068**
Due from banks	**-**	**-**	**1,781**	**158**	**-**	**1,939**
Loans and advances	**16,571**	**81,551**	**305,277**	**48,820**	**-**	**452,219**
	213,639	**81,551**	**307,216**	**48,820**	**-**	**651,226**
Liabilities						
Due to banks	**31,582**	**-**	**-**	**-**	**-**	**31,582**
Due to customers	**252,623**	**74,727**	**61,624**	**13,843**	**-**	**402,817**
Subordinated debt	**-**	**-**	**-**	**-**	**75,813**	**75,813**
	284,205	**74,727**	**61,624**	**13,843**	**75,813**	**510,212**
Liquidity (gap) surplus for the period	**(70,566)**	**6,824**	**245,592**	**34,977**	**(75,813)**	**141,014**
Cumulative liquidity (gap) surplus	**(70,566)**	**(63,742)**	**181,850**	**216,827**	**141,014**	**-**

The contractual remaining maturities of non-derivative financial assets and liabilities, excluding interest payments, as at 31 December 2013 are as follows:

Description *(in thousands of UAH)*	Maturity periods: Within one month	From one to three months	From three months to one year	From one to five years	**Total**
Assets					
Cash and cash equivalents	159,774	-	-	-	159,774
Restricted mandatory reserves with the National Bank of Ukraine	8,896	-	-	-	8,896
Due from banks	-	-	903	80	983
Loans and advances	25,361	83,752	178,665	39,154	326,932
	194,031	83,752	179,568	39,234	496,585
Liabilities					
Due to banks	124,753	-	-	-	124,753
Due to customers	120,769	29,087	63,267	2,831	215,954
Subordinated debt	-	-	211	40,054	40,265
	245,522	29,087	63,478	42,885	380,972
Liquidity (gap) surplus for the period	(51,491)	54,665	116,090	(3,651)	115,613
Cumulative liquidity (gap) surplus	(51,491)	3,174	119,264	115,613	-

Due to customers include term deposits from individuals (Note 12). In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits or a part thereof upon the first demand of a depositor regardless of the type of the deposit (i.e. call or term deposit). In case of a depositor's demand to early repay the deposit, the Bank is obliged to repay the deposit within the term specified in the deposit agreement. The Bank shall repay the deposit upon the depositor's demand within 7 days from the day when such demand was claimed in accordance with Part, 2, Article 530 of the Civil Code of Ukraine. However, the Bank does not expect that many customers will request repayment at dates earlier than their maturity. These balances are included above in accordance with their contractual maturity.

Following the resolution of the NBU No. 540 dated 29 September 2014 and the resolution of the NBU No. 758 dated 1 December 2014, there are several restrictions imposed by the NBU on the withdrawability of cash in notes and coins from due to customers accounts. Banks are not allowed to disburse cash in notes and coins in national currency above UAH 150 thousand and in foreign currency up to UAH 15 thousand per day per one client.

Due to short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. On the contrary, historical experience demonstrates that certain loans are settled before their contractual maturity dates. Accordingly, the effective maturity of the loan portfolio may be significantly different than the term based on contractual terms.

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2014 is as follows:

(in thousands of UAH)	**Total carrying amount**	**Within one month**	**From one to three months**	**From three months to one year**	**From one to five years**	**Total**
Due to banks	**31,582**	**31,634**	**-**	**-**	**-**	**31,634**
Due to customers:	**402,817**	**259,229**	**81,343**	**67,596**	**14,830**	**422,998**
Retail	***62,075***	***25,562***	***13,414***	***16,678***	***14,830***	***70,484***
Corporate	***340,742***	***233,667***	***67,929***	***50,918***	***-***	***352,514***
Subordinated debt	**75,813**	**-**	**-**	**3,855**	**108,811**	**112,666**
Notional amount of derivative financial instruments	**96,505**	**96,505**	**-**	**-**	**-**	**96,505**
Credit related commitments (note 16(c))	**672**	**672**	**-**	**-**	**-**	**672**
Total	**607,389**	**388,039**	**81,344**	**71,451**	**123,641**	**664,475**

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2013 is as follows:

(in thousands of UAH)	**Total carrying amount**	**Within one month**	**From one to three months**	**From three months to one year**	**From one to five years**	**Total**
Due to banks	124,753	124,894	-	-	-	124,894
Due to customers	215,954	121,426	30,098	65,685	2,926	220,135
Retail	*44,506*	*12,838*	*6,888*	*22,597*	*2,861*	*45,184*
Corporate	*171,448*	*108,588*	*23,210*	*43,088*	*65*	*174,951*
Subordinated debt	40,265	-	-	2,442	50,027	52,469
Notional amount of derivative financial instruments	95,809	95,809	-	-	-	95,809
Credit related commitments (note 16(c))	4,348	4,348	-	-	-	4,348
Total	481,129	346,477	30,098	68,127	52,953	497,655

(g) Capital management

(i) Regulatory capital

The NBU sets and monitors capital requirements for the Bank as a whole.

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital ratio) above the prescribed minimum level. If it does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial position. As at 31 December 2014, the minimum level required by the NBU is 10.0% (31 December 2013: 10.0%).

The Bank's capital adequacy ratio as at 31 December 2014 calculated according to the requirements of the NBU is 45.25% (31 December 2013: 39.7%). The Bank was in compliance with the regulatory capital ratios set by the NBU as at 31 December 2014 and 2013.

The amount of regulatory capital as at 31 December 2014 is UAH 227,822 thousand (31 December 2013: UAH 158,935 thousand).

The structure of the regulatory capital as at 31 December 2014 and 2013 is as follows:

(in thousands of UAH)	**2014**	2013
Regulatory capital	**123,549**	**107,574**
Share capital	88,045	88,045
Reserves	32,548	19,529
Reduction of regulatory capital		
Intangible assets	924	-
Additional capital contributions	**104,237**	**51,361**
Provision for impairment for loans and advances classified as 'standard'	54	63
Estimated profit for the current year	17,492	16,928
Subordinated debt eligible to be accounted in capital	86,727	34,370
Total regulatory capital	**227,822**	**158,935**

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord I, as at 31 December:

(in thousands of UAH)	**2014**	2013
Tier 1 capital		
Share capital	**88,045**	88,045
Retained earnings, share premium and additional paid in capital	**58,490**	35,075
Total Tier 1 capital	**146,535**	123,120
Subordinated debt	**75,813**	31,245
Total capital	**222,347**	154,365

25 Balances with related parties

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities which are under common control with the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

As at 31 December 2014 and 2013, the ultimate controlling party of the Bank is JSC "ALTINBAŞ HOLDING ANONIM ŞIRKETI", which is ultimately controlled by members of Altinbaş family.

Balances and transactions with the related parties as at and for the years ended 31 December are as follows:

(in thousands of UAH)	**2014**	2013
Balances and transactions with the Parent company		
Statement of financial position:		
Subordinated debt	**75,813**	40,265
Due to customers	**39,781**	40,477
Statement of comprehensive income:		
Interest expenses	**7,014**	3,958
Balances and transactions with the key management personnel		
Statement of financial position:		
Loans and advances to customers	**3**	43
Due to customers	**2,440**	3,153
Statement of comprehensive income:		
Interest income	**-**	1
Interest expenses	**1**	25
Salaries and related charges	**4,508**	1,718

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2014 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**
Balances with the Parent company and other entities under common control						
Subordinated debt	**-**	**-**	**75,813**	**9.2%**	**-**	**-**
Due to customers	**-**	**-**	**39,781**	**4.4%**	**-**	**-**
Balances with key management personnel						
Loans and advances to customers	**3**	**36.0%**	**-**	**-**	**-**	**-**
Due to customers	**118**	**6.5%**	**1,666**	**7.9%**	**656**	**7.2%**

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2013 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	40,265	9.2%	-	-
Due to customers	-	-	40,477	5.6%	-	-
Balances with key management personnel						
Loans and advances to customers	43	26.9%	-	-	-	-
Deposits from customers	243	14.0%	2,844	6.9%	66	6.5%

The contractual remaining maturities of balances with related parties as at 31 December 2014 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Balances with the Parent company and other entities under common control						
Subordinated debt	**-**	**-**	**-**	**-**	**75,813**	**75,813**
Due to customers	**-**	**-**	**39,781**	**-**	**-**	**39,781**
Balances with key management personnel						
Loans and advances to customers	**-**	**3**	**-**	**-**	**-**	**3**
Due to customers	**1,294**	**66**	**1,080**	**-**	**-**	**2,440**

The contractual remaining maturities of balances with related parties as at 31 December 2013 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	211	40,054	-	40,265
Due to customers	-	-	40,477	-	-	40,477
Balances with key management personnel						
Loans and advances to customers	11	-	32	-	-	43
Due to customers	797	169	2,187	-	-	3,153

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and includes members of the Board of Management.

26 Estimation of fair value

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2014:

(in thousands of UAH)	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	197,068	-	-	197,068	197,068
Due from banks	1,939	-	-	1,939	1,939
Loans and advances	452,219	-	-	452,219	441,190
Total	**651,226**	**-**	**-**	**651,226**	**640,197**
Due to banks	-	-	31,582	31,582	31,582
Due to customers	-	-	402,817	402,817	402,817
Subordinated debt	-	-	75,813	75,813	58,395
Total	**-**	**-**	**510,212**	**510,212**	**492,794**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

(in thousands of UAH)	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	159,774	-	-	159,774	159,774
Mandatory reserve with the National Bank of Ukraine	8,896	-	-	8,896	8,896
Due from banks	983			983	983
Loans and advances	326,932	-	-	326,932	323,084
Total	496,585	-	-	496,585	492,737
Due to banks	-	-	124,753	124,753	124,753
Due to customers	-	-	215,954	215,954	215,954
Subordinated debt	-	-	40,265	40,265	41,907
Total	-	-	380,972	380,972	382,614

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(b) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchange traded derivatives, such as futures.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Financial assets and liabilities measured at fair value by hierarchy levels are as follows:

	31 December 2014				31 December 2013			
(in thousands of UAH)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Other assets (Derivative financial instruments)	-	**58**	-		-	127	-	127
Other liabilities (Derivative financial instruments)	-	-	-	-	-	-	-	-

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2014:

(in thousands of UAH)	*Level 1*	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Cash and cash equivalents	-	**197,068**	-	**197,068**	**197,068**
Due from banks	-	**1,939**	-	**1,939**	**1,939**
Loans and advances	-	-	**441,190**	**441,190**	**452,219**
Total	-	**199,007**	**441,190**	**640,197**	**651,226**
Financial liabilities					
Due to banks	-	**31,582**	-	**31,582**	**31,582**
Due to customers	-	**402,817**	-	**402,817**	**402,817**
Subordinated debt	-	**58,395**	-	**58,395**	**75,813**
Total	-	**492,794**	-	**492,794**	**510,212**

Fair value of subordinated debt is estimated using the discounted cash flows technique by discounting the expected contractual cash flows under this instrument at interest rates offered for similar instruments at the reporting date. As at 31 December 2014 the market interest rate for similar instruments is 15.0% (31 December 2013: 7.4%).

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

(in thousands of UAH)	*Level 1*	*Level 2*	*Level 3*	*Total fair values*	*Total carrying amount*
Financial assets					
Cash and cash equivalents	-	159,774	-	159,774	159,774
Mandatory reserve with the National Bank of Ukraine	-	8,896	-	8,896	8,896
Due from banks	-	983	-	983	983
Loans and advances	-	-	323,084	323,084	326,932
Total	-	169,653	323,084	492,737	496,585
Financial liabilities					
Due to banks	-	124,753	-	124,753	124,753
Due to customers	-	215,954	-	215,954	215,954
Subordinated debt	-	41,907	-	41,907	40,265
Total	-	382,614	-	382,614	380,972

(c) Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2014:

Type of instrument	**Fair values**	**Valuation technique**	**Significant unobservable input**	**Range of estimates (weighted average) for unobservable input**	**Fair value measurement sensitivity to unobservable inputs**
Loans and advances	441,190	Discounted cash flow	Risk adjusted discount rate	Interest rates for corporate client 7%-39%, for retail clients 18%-46%,depending on currency and maturity	Significant increase in interest rates would result in lower fair values.

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2013:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans and advances	323,084	Discounted cash flow	Risk adjusted discount rate	Interest rates 12%-25%, depending on currency and maturity	Significant increase in interest rates would result in lower fair values.

During the year ended 31 December 2014 and 2013, there were no transfers into and out of Level 3 of the fair value hierarchy.

During the year ended 31 December 2014, the Bank granted loans to customers amounting to UAH 519,511 thousand (during the year ended 31 December 2013: UAH 711,627 thousand).

During the year ended 31 December 2014, loans to customers amounting to UAH 603,977 thousand were settled (during the year ended 31 December 2013: UAH 568,280 thousand).

27 Subsequent events

Subsequent to 31 December 2014, the National Bank of Ukraine officially devalued Ukrainian hryvnia and decreased exchange rate to UAH 22.45 for USD 1 as at the date of these financial statements.

On 3 March 2015, the National Bank of Ukraine adopted Resolution No. 160, which introduced further restrictions on acquisition of foreign currency by banks as well as on certain other operations with foreign currency.

28 Other information in accordance with the requirements of the Ukrainian legislation

Pursuant to the requirements of the Resolution No. 2826 dated 3 December 2013 of the National Commission on Securities and Stock Market the Bank discloses the following information as at 31 December 2014:

- The Bank's assets and liabilities are presented in the statement of financial position as at 31 December 2014 in these financial statements.
- The Bank's elements of equity are presented in the statement of changes in equity for the year ended 31 December 2014 in these financial statements, information about the Bank's capital is presented in Note 15.
- Statutory capital of the Bank is fully paid in cash.
- The Bank did not manage non-state pension funds.
- The Bank did not have own debt securities issued.
- The Bank did not have mortgage securities issued.
- As at 31 December 2014, a subordinated loan from Parent amounted to UAH 79,879 thousand and a deposit from an other related party amounted to 39,781 thousand, which in total and individually exceed 25% of statutory capital of the Bank.
- In March 2015 CREDITWEST FAKTORİNG HİZMETLERI ANONİM ŞİRKETİ and ONSA MÜCEVHERAT İMALATI VE DIŞ TİCARET ANONİM ŞIRKETİ sold all their shares in the Bank to ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ that now owns 100% of shares of the Bank.

During 2014, there were no other events as defined under the part 1 of Article 41 of the Law of Ukraine “On securities and stock market” that could have had significant impact on the financial position of the Bank or led to significant change of the value of its securties issued, including the following:

- No decisions on issuance of securities for the amount exceeding 25% of statutory capital of the Bank were approved.
- No decision on buy back of the Bank’s own shares were approved.
- No facts of listing/de-listing of own Bank’s securities issued at stock-exchange took place.
- No decisions were approved to open an affiliate and/or representative office.
- No decision of Bank’s supreme governing body to reduce the statutory capital of the Bank.
- No court decisions on the Bank bankruptcy or reorganisation of potential bankrupt were taken.

No decisions of Bank’s supreme governing body or court were taken in relation to filing for bankruptcy or suspension of bankruptcy proceedings.

The Bank’s corporate governance status, including its internal audit function

The Bank’s supreme governing body is general meeting of shareholders which assigns Supervisory Board that is responsible for defining the Bank’s strategy, appointment of members of the Board, approvals of the Bank’s structure and business-plans.

The Board is an executive body responsible for governing daily banking operations and reportable to the Supervisory Board. The Board is responsible for establishing controls and monitoring of risks. The Bank also established management committees primarily responsible for risk management (note 24), credit approvals, tariffs and assets and liabilities management.

The Bank established an internal audit department responsible for independent assessment of organisational structure and controls implementation. The internal audit department reports directly to the Supervisory Board.

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Independent Auditors' Report

To the Board of Directors
Public Joint-Stock Company "West Finance and Credit Bank"

Report on the financial statements

We have audited the accompanying financial statements of Public Joint-Stock Company "West Finance and Credit Bank" (the Bank), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, which includes general information on the Bank's activities.

Management's Responsibility

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No.304/1 dated 24 December 2014. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

We draw attention to Note 1(b) to the financial statements, which describes the political and social unrest and regional tensions that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in Note 1(b) adversely affected the Bank's results and financial position and may continue to affect them in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

JSC KPMG Audit

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

Anna Parkhomenko
Deputy Director
Certified Auditor

ACU Certificate: 0085 dated 29 October 2009
NBU Certificate: 0000044 dated 20 September 2007

27 April 2015