

ANNUAL REPORT



2014

NATIONAL BANK OF UKRAINE



Dear ladies and gentlemen,

The year 2014, which was full of dramatic events in all areas of the country's social and economic life, is now history. Old, unresolved economic problems, such as persistent budget and balance of payments deficits, weak fiscal policy, an ailing energy sector that has gone unreformed for years and a steep decline in the health of banks in the wake of significant deposit outflows - all were evident at the very start of the year.

That, together with external aggression, posed great challenges for the National Bank in all of the priority lines of its activity - monetary policy, banking regulation and supervision, providing support for banks, cash circulation and financial infrastructure. This created the need for radical and multidimensional action.

Monetary policy required fundamental changes on a top priority basis. In this light, the National Bank made a painful but an absolutely necessary decision to adopt a flexible exchange rate regime as early as the start of the year. A market-based exchange rate prevents economic shocks and is beneficial for the balance of payments current account. In spite of that, in the reporting year, the country was hit by two waves of devaluation resulting from the unwillingness to take the unpopular step to stop maintaining a stable hryvnia exchange rate by artificial means in previous more favorable years, delayed reforms in other economy sectors, as well as an ongoing military conflict. The National Bank had to impose certain restrictions, raise the refinancing rate, and use other monetary policy tools in order to ease high inflation and devaluation pressure.

The deep financial and economic crisis provoked by the annexation of the AR Crimea, followed by a military conflict in eastern Ukraine, created tensions in the banking sector, which later spilled over into the entire banking system. People reacted with runs on banks, resulting in the loss of one third of all deposits by the banking system. The National Bank quickly responded to the liquidity crisis, providing financial

support for banks via conventional and ad hoc refinancing instruments. Under such difficult conditions, the NBU policy to strengthen the banking sector was mainly focused on maintaining the capital of banks at a sufficient level and cleansing the banking sector of insolvent and incompliant banks. The National Bank also closely cooperated with and supported the Household Deposit Guarantee Fund.

The National Bank also experienced significant difficulties with supplying the economy with cash and with ensuring the smooth operation of payment systems in some Ukrainian regions. In spite of numerous armed attacks on the banks in Luhansk and Donetsk oblasts by the militants, the National Bank was able to ensure uninterrupted cash supplies in Ukraine, and to maintain the smooth operation of the electronic payment system.

In 2014, the National Bank launched radical reforms of itself. It conducted a fundamental review of its main functions and processes, optimized the number of its staff, and disposed of non-core assets, which pushed the bank closer to its aim of becoming a modern central bank and enhancing the effectiveness of decision-making.



Valeria Gontareva

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No.1181-VII of 1 April 2014***Yurii Polunieiev****Deputy Chairman of the National Bank of Ukraine Council***Resolution of Verkhovna Rada of Ukraine
No.504-VI 5 September 2008***Iryna Akimova***Decree of the President of Ukraine No. 545/2010 of
16 April 2010***Oleksandr Bilanenko***Resolution of Verkhovna Rada of Ukraine
No.1181-VII of 1 April 2014***Pavlo Haidutskyi***Decree of the President of Ukraine No. 545/2010 of
16 April 2010***Valeria Gontareva***As the NBU Governor is a member of the NBU Council
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No.1181-VII of 1 April 2014***Trokhym Kovalchuk***Resolution of Verkhovna Rada of Ukraine
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16 April 2010***Шпек Роман Васильович***Decree of the President of Ukraine No. 545/2010 of
16 April 2010*

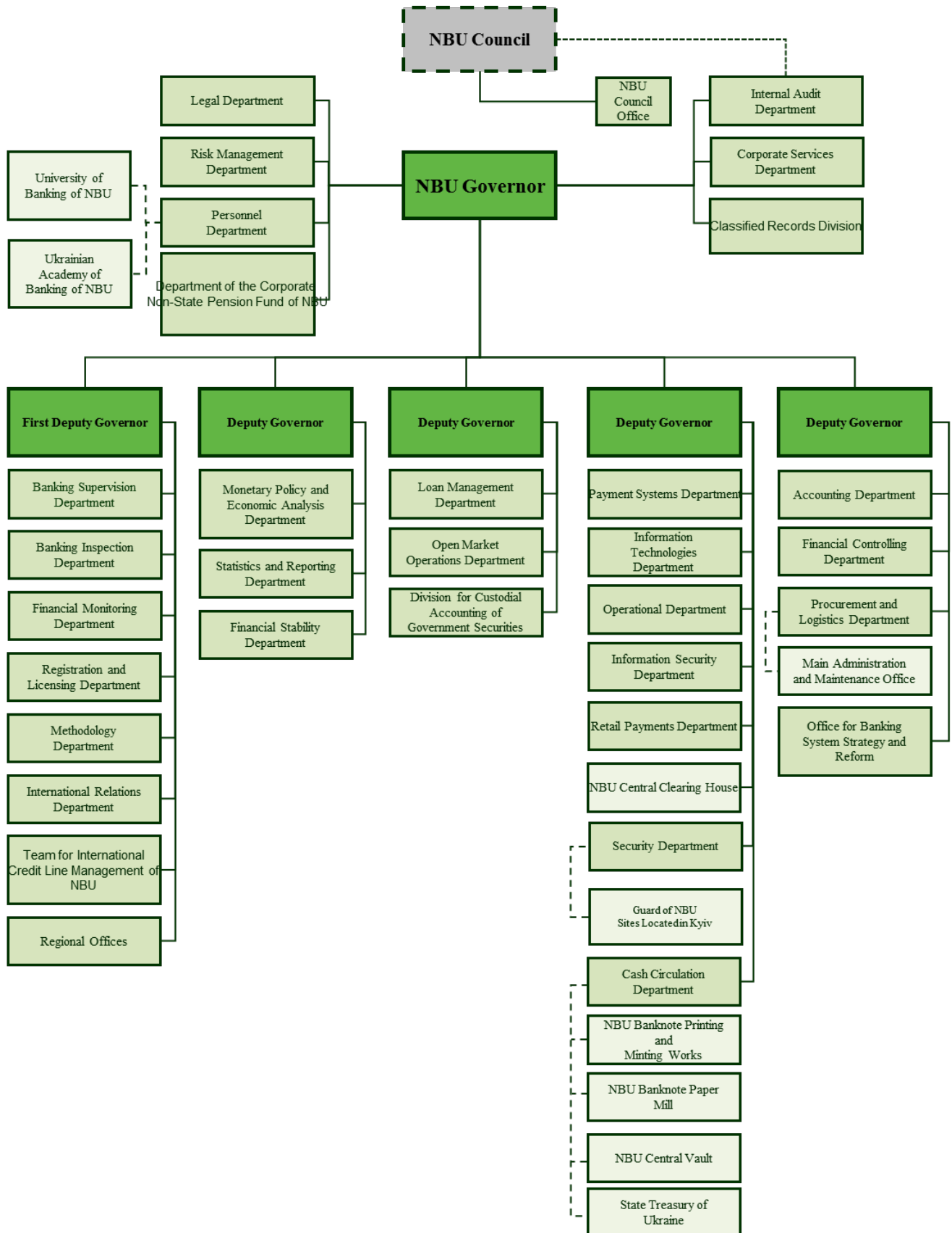
BOARD of the NATIONAL BANK OF UKRAINE

(as of 31 March 2015)

Valeria Gontareva*Governor of the National Bank of Ukraine***Oleksandr Pysaruk***First Deputy Governor***Yakiv Smolii***Deputy Governor***Vladyslav Rashkovan***Acting Deputy Governor***Dmytro Solohub***Acting Deputy Governor***Roman Borysenko***Director, Personnel Department***Bohdan Lukasevych***Chief Accountant – Director, Accounting Department***Viktor Novikov***Director, Legal Department***Oleh Churii***Director, Open Market Operations Department***Alla Shulha***Director, General Department for Banking Supervision*

ORGANIZATIONAL CHART of the NATIONAL BANK OF UKRAINE

(as of 1 March 2015)



OVERVIEW

1. The Annual Report discloses the results of performing the major function and tasks by the National Bank of Ukraine in the following areas: monetary policy, regulatory and supervisory activity, regulation of cash circulation and non-cash settlements, economic analysis, reporting and statistics, international cooperation. Also, the Annual Report presents the results of legislative activity of the National Bank of Ukraine, the results of reforming the banking system and the HR management policy of the NBU in 2014.

2. In 2014, the activities of the National Bank of Ukraine were carried out in extremely complex political and macroeconomic conditions - Ukraine experienced an unprecedented combination of political, financial, economic and banking crises.

3. The ground of the full-blown financial crisis in 2014 was the economic policies of the previous years, which had led to the accumulation of large macroeconomic imbalances. Due to the artificial maintenance of a fixed exchange rate, Ukraine's economy was losing external competitiveness, which resulted in the rise of account deficits and the reduction of gold and foreign exchange reserves. The inconsistent monetary and fiscal policy, the lack of energy sector reforms and debt dollarization (active borrowing in foreign currency in the domestic market and issue of indexed domestic sovereign bonds) increased the quasi-fiscal deficit component and vulnerability of the debt to the foreign exchange risk. Annexation of the Crimea and military activities in the east of the country together with the accumulated imbalances significantly impaired the macro-financial stability of the state.

4. Economic activity during 2014 was restrained by unfavorable conditions in foreign markets, decrease in domestic consumer and investment demand, breaks of interregional relations, reduction of state funding, narrowing of credit activity, etc. Events in eastern Ukraine led to a significant number of shutdowns of metallurgical, chemical, machine-building plants and coal mines in this region, which traditionally accounted for 20-25% of Ukrainian exports. At the same time, the record grain harvest and liberalization of access of Ukrainian goods to the EU markets were stimulating factors for the economy. As a result, in 2014, the real GDP decreased by 6.8%, exports of goods and services from Ukraine - by 19.5%, the overall balance of payments deficit reached USD 13.3 billion and gold and foreign exchange reserves fell to critically low level of USD 7.5 billion. The decrease in exports was accompanied by a fall in investment potential of the country under the increasing uncertainty, high political and economic risks and capital outflows. There was a significant deterioration in market expectations observed along with a simultaneous increase in the demand for foreign currency, increase in its deficit and excessive volatility of the exchange rate. As a result, the net demand for non-cash foreign currency in 2014 amounted to almost USD

10 billion equivalent (in 2013, the net proposal was recorded at the level of USD 1.6 billion), and the hryvnia weakened its position by 93.5% against the US dollar in non-cash transactions.

5. The accumulated imbalances and significant shocks for the banking system required that the National Bank introduced immediate, unpopular but necessary reforms of the economic financial sector and took the set of firm immediate stabilization measures, often using administrative measures. Developing a stable banking system that would serve as the stimulus for the economic growth remained one of the key goals for the National Bank of Ukraine and involved the structural changes in the banking system, strengthening its system stability and efficiency.

6. The monetary policy of the state needed immediate reboot. Therefore, the National Bank of Ukraine began to implement the preparatory measures for the transition to inflation targeting as the most successful current monetary strategy in the world. Abandoning of the fixed exchange rate was a prerequisite for changes in the monetary regime of the monetary policy of the National Bank of Ukraine.

7. Therefore, the National Bank of Ukraine started to set the official UAH/USD exchange rate at the level of average weighted market quotations. There has been made a decision¹, pursuant to which the official UAH/USD exchange rate shall be defined as average weighted bid and ask exchange rate of the current day in the interbank foreign exchange market of Ukraine.

8. The transition to a flexible exchange rate formation also became one of the key prerequisites that allowed Ukraine to access external support from the international financial institutions and to receive the IMF Board approval of a new two-year stand-by program. For our country and for the world as a whole it was a strong signal of support both from political and economic point of view. As a result, in 2014, Ukraine received from the IMF credit resources in the amount of almost USD 4.6 billion (in the equivalent) and additionally raised nearly USD 4.7 billion (in the equivalent) from the foreign markets and bilateral financial agreements. The mentioned above allowed Ukraine to timely and fully meet its sovereign obligations in the difficult conditions of production and foreign economic activity decline.

9. In order to improve its own institutional capacity, the National Bank of Ukraine established the Monetary Policy Committee - a collegial body responsible for the development of proposals for the formulation and implementation of the monetary policy to be presented for the NBU Board approval. The Committee will focus on identifying changes in the parameters of monetary instruments and their alignment with monetary policy objectives of the NBU. In particular, the Monetary Policy Committee will analyze the situation in financial markets, macroeconomic indicators and results of

¹ Resolution of the Board of the National Bank of Ukraine No. 180 of 31 March 2014.

forecast scenarios and develop proposals on setting and changing policy rate and other interest rates of the NBU, on the parameters of operations with assets and liabilities to regulate liquidity of the banking system, on the determination and implementation of the exchange rate policy, on the amount and the procedure of formation of the reserves requirements to banks and on the coordination of monetary and fiscal policies.

10. Significant negative trends in all sectors of Ukrainian economy could not objectively be neutralized through tactical measures of monetary policy, since most factors were beyond the influence of the NBU - the actual state of the monetary market deviated from the parameters defined in the Monetary Policy Fundamentals for 2014. The possibility of deviation in the actual inflation rates from the benchmark was assumed in case of a significant influence of internal and external shocks.

11. In order to halt inflation and devaluation processes which accompanied the start of economic reforms and enhanced due to the panic-driven behavior of the economic agents, the interest-rate policy of the National Bank of Ukraine for 2014 was aimed at increasing the intrinsic value of the hryvnia. During one year, the National Bank of Ukraine increased three times the discount rate, which is the base for other interest rates of the National Bank of Ukraine - from 6.5% to 14.0% per annum at the end of the year. Accordingly, the interest rates under standing refinancing facilities also increased.

12. In order to stabilize the situation in the foreign exchange market including for smoothing excessive fluctuations of the exchange rate and calming the panic, the NBU conducted the foreign exchange auctions and targeted interventions to supply banks with fx and to satisfy the needs of banks' customers. Also, there were introduced additional temporary regulatory measures applied to foreign exchange transactions. To avoid additional foreign exchange pressure, the NBU actually removed the largest buyer of foreign currency - Naftogaz Ukraine from the interbank foreign exchange market of Ukraine, having provided the company with an access to foreign currency through targeted interventions.

13. In a difficult economic and political situation in the country, the deterioration of market expectations and a sharp decrease in bank deposits (banking system in 2014 lost a third of its deposit base), the National Bank directed its attention to the support of the stable operation of banks, facilitation of smooth payments and timely fulfillment of banks' obligations to the depositors. To this end, the National Bank of Ukraine supported bank liquidity, focusing on the most transparent and clear standard facilities for refinancing the banks. The reserve requirements to the the banks also underwent liberalization. However, operations of the NBU to regulate liquidity of the banking system were mainly of mobilization nature. In 2014, in order to improve banking supervision, increase control over refinancing and in accordance with international best practices in banking supervision, the National Bank of Ukraine introduced the curatorship.

14. In order to maintain confidence in the banking system, the National Bank of Ukraine devoted considerable attention to the support of the Deposit Guarantee Fund. In particular, the conditions for accepting collaterals were simplified, eligible collateral list was extended, there was also provided the possibility of granting loans through opening credit lines, the loan term was extended from one to three years, etc.

15. With the aim of strengthening the banking system, the National Bank of Ukraine withdrew from the market problem insolvent banks, as well as banks engaged in illegal activities, in particular in terms of money laundering. The National Bank of Ukraine implemented all the measures provided for in the Action Plan for 2014 as elaborated together with the Government and aimed at the prevention and counteraction of legalization (laundering) of proceeds from crime or terrorist financing, resulting in the removal of three unscrupulous banks from the market. In 2014, 33 banks in total were removed from the market and transferred to the Deposit Guarantee Fund. The "clean-up" of the banking system was accompanied by a reduction in key indicators of banking activities.

16. The disruptions in the banking system operation as a result of the occupation of the territory of the Autonomous Republic of Crimea and the city of Sevastopol made it impossible for the banks and their standalone units to meet the requirements of the legislation of Ukraine and the NBU regulations in this region. Numerous attacks of terrorist groups on cash transit vans, ATMs, banking institutions and regional branches of the National Bank of Ukraine with the aim of taking possession of funds, weapons and vehicles, as well as the explosions and acts of arson threatened the life and health of bank employees and resulted in the banks losing their property. In such circumstances the activities of the National Bank of Ukraine were aimed at creating appropriate conditions for the smooth operation of the cash circulation system, payment and transfer systems; at preventing or reducing the risks for banks, protecting the employees' lives and health, as well as the bank property.

17. In the reporting year, the National Bank of Ukraine together with 35 largest banks started the elaboration of the Comprehensive Program for the development of the banking system of Ukraine in 2015 - 2020 in order to make structural reforms in the banking sector systemic. The document was prepared in accordance with the principles laid down in the Memorandum of Economic and Financial Policies of the IMF concerning financial sector reforms; while the implementation of the document is to take place in three main areas which will ensure price stability, financial stability and the development of the institutional capacity of the National Bank of Ukraine in supervisory and regulatory functions as well as the increase in its efficiency as a state institution. The results were taken as a basis of the Comprehensive Program for the Development of Ukraine's Financial Market for 2015 - 2020 development whereof is still in progress.

18. In order to condition the environment for reforming the banking sector in the medium term the NBU conducted stress testing of 35 largest banks in the reporting year. Based on its results there were developed capitalization programs/ restructuring plans. The requirements to the minimum amount of authorized capital of new banks were increased to UAH 500 million; there was approved a schedule for bringing the authorized capital of the existing banks in compliance with the new requirements within 10 years; the procedures for removing the banks from the market and procedures for monitoring the related persons were improved; there was also introduced a strict procedure for disclosing bank owners. There was developed and submitted to the Verkhovna Rada of Ukraine for consideration the draft law, which significantly strengthens the liability of the owners and top management of the banks for manipulating financial reporting and for driving the banks into bankruptcy².

19. Vigorous efforts of the National Bank to increase the level of Ukrainians' financial literacy served as a preventive measure against the outflow of deposits from the banking system - in the reporting year there started the work on the development of the strategy and the national website on financial literacy. In the reporting period, there were a number of measures to enhance financial literacy held by the NBU jointly with the central and local public authorities, banking and financial institutions, commercial companies, public organizations, school teachers and teachers in higher educational establishments. The attention was focused on forming the habit of saving and investing, as well as on the need for keeping the family budget.

20. The National Bank of Ukraine continued the work on ensuring bilateral international cooperation in order to represent the interests of Ukraine in the central banks of other countries, to implement best international practices for the development of the banking sector in Ukraine, to create a positive image of Ukraine in the world community and to enhance its investment attractiveness. In 2014, the NBU actively participated in the negotiations on obtaining financial and technical support for the implementation of economic reforms in Ukraine.

21. The National Bank started the reform of the banking system from reforming itself - during the reporting year, non-core assets were abandoned; there was initiated the process of optimizing human resource capacity of the NBU and there were introduced new approaches to engaging human resources; the main processes of the NBU were analyzed and reorganized; there was a significant reduction in its maintenance expenditures.

22. The task of reforming the banking system to enhance its stability, predictability and efficiency will remain the key priority of the National Bank of Ukraine. The NBU

² No. 218-VIII as approved by the Verkhovna Rada of Ukraine on 2 March 2015.

will continue strengthening technical and operational prerequisites for the implementation of inflation targeting under favorable macro-financial circumstances.

CALENDAR of KEY EVENTS 2014

	JANUARY	FEBRUARY
NBU Monetary Policy	<p>Temporary lifting of limits on extending refinancing loans (except overnight) and funds under repo operations depending on the bank's regulatory capital</p>	<p>Reserve requirement reduced from 40% to 20% for reserves on a separate account and from 60% to 50% for daily balances on correspondent accounts</p> <p>Banks have the right to apply for secured overnight loans within 70% of the reserve requirement amount and for unsecured loans within 25% of the reserve requirement</p> <p>New additional mechanism for maintaining and saving the liquidity of the banks with household deposits outflows</p> <p>Decrease of term deposits for liquidity provision is calculated without considering exchange rate changes</p> <p>Technical procedure for extending liquidity to banks has been improved</p> <p>Limits have been introduced for fx purchases on IBFXM under some operations and the term for fx purchases under client instructions extended to 6 banking days</p> <p>Temporary limits on fx purchases under current non-trading operations aimed at making transfers abroad (up to UAH 50 thousand)</p> <p>0% provisions set for the agreements on borrowing fx funds from non-residents for the term less than 183 calendar days</p> <p>Some operations under correspondent accounts of nonresident banks have been liberalized</p>
Regulation and Supervision	<p>Vector Bank PJSC has been granted a banking license and recorded in the State Bank Register</p> <p>Commercial Bank Daniel PJSC has been declared insolvent and put under temporary administration</p>	<p>The methodology for calculating the economic ratios regulating the banking activities has been improved</p> <p>BROKBIZNESBANK JSC and REAL BANK PJSC declared insolvent and put under temporary administration</p>
Cash circulation and noncash payments	<p>The procedure for arranging and carrying out inspections of entities subject to payment system supervision (oversight) has come into effect</p> <p>The NBU has been empowered to apply corrective measures to the violators of payment system operation rules</p> <p>Commemorative coins "60 years of the Cherkasy Oblast", "75 years of the Kirovohrad Oblast", "75 years of Sumy Oblast" have been issued</p>	<p>Financial company "Platizhnyi Tcentr" LLC. has been granted a license for money transfers in domestic currency without opening accounts</p> <p>Commemorative coins "XII Olympic Winter Games", "Liberation of Nikopol from the Fascist Invaders", "Korsun-Shevchenkovsky Offensive", "Yevhenii Berezniak" have been issued</p>
Other NBU activities	<p>BoP and External Debt statistics published according to a new methodological framework</p> <p>The NBU has become a full-fledged member of the International OECD International Network on Financial Education (OECD/INFE)</p> <p>Participation in Euromoney CEE Forum</p>	<p>Participation in the meeting of the CIS Task Force on drafting the Free Services Trade Agreement</p> <p>Participation in the 10th special meeting of the Board of Governors of Black Sea Trade and Development Bank</p> <p>Participation in the High-Level Global Symposium on Financial Education, section of long-term savings and investments</p>
Country events	<p>Revolution of Dignity</p>	<p>Heavenly Hundred shot to death</p> <p>Constitutional majority of Verkhovna Rada of Ukraine has made a decision to restore Constitution 2004 and declared early elections of the President of Ukraine</p> <p>Stepan Kubiv has been appointed Head of the NBU Board</p> <p>Social and political tensions led to deposit outflow from the banking system</p>
	JANUARY	FEBRUARY

MARCH		APRIL		
Switching to the policy of flexible exchange rate as a basis for changing the monetary regime (gradual migration to inflation targeting regime)		Policy rate has been raised by 3.0 p.p. to 9.5% per annum		NBU Monetary Policy
The mechanism of setting the official exchange rate to foreign currencies and investment metal prices		The rate on secured overnight refinancing standing facilities has been increased by 7.0 p.p. to 14.5% per annum		
The term for fx purchases under client instructions reduced to 4 banking days		Temporary measures aimed at ensuring equilibrium in the monetary market have been streamlined		
Cash fx purchases from individuals for the amount up to UAH 150 thousand are allowed without IDs		Liquidity is extended to banks, provided the concentration of loan debts of 10 top borrowers < 40%		
Allowed is sale of cash fx to 1 person per 1 banking day by 1 banking institution within UAH 15 thousand		Interest rate is set at the level of 2 policy rates and shall not be adjusted within the term of Agreement		
		It is allowed to release a part of collateral under the mechanism of prompt liquidity support		
		FX transfers under non-trade operations are allowed in the amount of up to UAH 15 thousand per month without confirmation and up to UAH 150 thousand from the current account with confirmation (with exceptions)		
		Limit of UAH 15 thousand per day on sale and issuance of fx cash amount has been prolonged		
		The NBU has been empowered to restrict the operation of the authorized bank in the Trade Confirmation System in case it destabilizes the interbank fx market		
The procedure for determining banks' open fx position limits has been approved		The curatorship and special bank control regime have been introduced		Regulation and Supervision
Gradual incorporation of loan loss provisions into calculation of the total open fx position has been introduced		Temporarily, the banks that violated economic ratios, are prohibited to effect certain transactions		
MERKURII BANK JSC and BANK FORUM PJSC declared insolvent and put under temporary administration		Interbank PJSC declared insolvent and put under temporary administration		
		Banking license withdrawn from and liquidation procedure launched for Commercial Bank Daniel PJSC		
FINOD LLC and Financial Company FENIKS LLC have been granted a license for money transfers in domestic currency without opening accounts		11 intrabank payment systems recorded in the Registry of payment systems		Cash circulation and noncash payments
Register of payment systems, settlement systems, their participants and payment infrastructure service providers has been established		The procedure for doubtful banknotes withdrawal from circulation and submission for examination has been improved		
Commemorative coins "200th Anniversary of T.H.Shevchenko's Birth", "Aries (Little Ram)", "75 Years of the Zaporizhia Oblast", "70 Years of the Kherson Oblast", "Heavenly Hundred at Watch" have been issued		The Issue Schedule for commemorative coins of Ukraine and souvenir products for 2015		
		Commemorative coins "Volodymyr Serhieiev", "Taurus (Little Bull)" have been issued		
		BANK FORUM PJSC has been excluded from the list of bullion coins distributors		
The IMF Mission to Ukraine resulted in reaching common understanding of the economic reform program and extending a loan under Stand-By Arrangements		The IMF has approved a new Stand-By loan for Ukraine in the amount of USD 17.01 billion for 2 years under 3% per annum		Other NBU activities
The World Bank mission to Ukraine resulted in the agreement on financial assistance package for facilitating the economic development of Ukraine within the framework of systemic and investment projects		Participation in the World Bank Group and International Monetary Fund		
Agreement reached with the EBRD on drafting the technical assistance package by directing additional USD 5 billion within next 5 years		Participation in the Conference on facilitating international cooperation and search of assets to be placed abroad		
A working meeting held with EU Commissioner on the budget for macrofinancial assistance for stabilization of the economic situation				
Working meetings with representatives of Deutsche Bank, German Bank for Development KfW, Canada - Ukraine Chamber of Commerce				
Illegal "referendum" in the Autonomous Republic of Crimea and the city of Sevastopol and annexation of the territory by the Russian Federation		Armed seizure of state authority buildings in the east of the country. Decision taken to begin the ATO		Country events
UNO Resolution declaring Crimea as a territory of Ukraine		The Law "On ensuring rights and freedoms of the citizens and legal regime on temporarily occupied territory of Ukraine" enacted		
Political part of EU - Ukraine Association Agreement signed		Members of the NBU Council appointed by the Verkhovna Rada have been changed		
Social and political tensions led to deposit outflow from the banking system		Further outflow of deposits from the banking system		
	JANUARY		FEBRUARY	

	MAY	JUNE
NBU Monetary Policy	<p>Daily reserve requirements for correspondent accounts have been decreased from 50% to 40%</p> <p>The requirement for obligatory sale of 50% of fx earnings in the IBFXM has been prolonged</p> <p>The term for settlements under export-import operations has remained 90 days</p> <p>Banks have been allowed to repay fx deposits and redeem fx certificates with domestic currency at the exchange rate as of the</p> <p>Banks' issuance of certificates of saving (deposit) were still suspended</p> <p>The procedure for opening current accounts for international financial organizations in foreign and domestic currency with authorized banks have been streamlined</p> <p>Temporary provisions on extending liquidity support loans to banks have been abolished</p> <p>Requirements to daily balances on correspondent accounts have been eased</p>	<p>The interest rate under refinancing loans for quick liquidity support is set as 1.5 policy rate</p> <p>The requirement to follow the procedure of forming obligatory reserves to be eligible for participation in a liquidity support tender</p> <p>The foreclosure mechanism has come into force in relation to the property received by the NBU as redemption of arrears under loans extended to banks</p> <p>Technical procedure for extending loans to DGF has come into force</p> <p>All the administrative and control functions for regulating liquidity of banks registered in the regions out of control of the authorities have been</p> <p>Issuance of cash in domestic currency from current and deposit accounts has been limited to UAH 150 thousand per day (except for social payments and</p> <p>The range of daily reserve requirements for correspondent accounts has been widened</p>
Regulation and Supervision	<p>Operation of Ukrainian banking institutions and their separate units in the AR Crimea has been terminated</p> <p>Procedures have been drafted for the diagnostic study of 35 top banks (by assets) and for taking decisions based on the findings</p> <p>PROMECONOMBANK PJSC, CB PIVDENCOMBANK PJSC, Zakhidinkombank PJSC and AKB Bank PJSC have been declared insolvent and put under temporary administration</p> <p>Banking license withdrawn from and liquidation procedure launched for Black Sea Bank for Development and Reconstruction PJSC, Morskyi Bank PJSC and REAL BANK PJSC</p>	<p>The procedure for applying corrective measures for violating the banking laws and regulations have been improved</p> <p>Criteria for declaring a bank a problem bank have been clarified</p> <p>Starokyivskyi bank PJSC has been declared insolvent and put under temporary administration</p> <p>Banking license withdrawn from and liquidation procedure launched for BROKBUSINESSBANK PJSC, BANK FORUM PJSC and MERKURII PJSC</p>
Cash circulation and noncash payments	<p>Financial Company VAP-KAPITAL LLC. has been granted a license for money transfers in domestic currency without opening accounts</p> <p>4 domestic and 1 intrabank payment systems recorded in the Register of payment systems</p> <p>Action Plan for implementation of the Strategic Program for Arranging Cash Circulation in Ukraine has been presented in more details</p> <p>The NBU investment program on establishing the base for cash storing and circulation has been approved</p> <p>The procedure for opening, usage and closing the accounts of election fund of candidates for the post of the President of Ukraine and members of Parliament of Ukraine has been approved</p>	<p>E-PAY LLC, POST FINANCE LLC and Subsidiary Financial Institution VM-FACTOR have been granted a license for money transfers in domestic currency without opening accounts</p> <p>3 domestic payment systems recorded in the Register of payment systems</p> <p>Commemorative coin "Cancer (Little Crayfish)" have been issued</p>
Other NBU activities	<p>First tranche under Stand-By Arrangement in the amount of USD 3.2 billion received</p> <p>Participation in the EBRD Annual Meeting</p> <p>Participation in the IMF/WB Constituency Meeting</p> <p>Engagement in the Technical Committee of the OECD International Network on Financial Education</p>	<p>First Ukraine Financial Forum of Vienna Initiative held</p> <p>Meeting with representatives of the Federal Government of Germany to discuss prompt extension of financial assistance from EU</p> <p>Participation in Annual Meeting of the Board of Governors of Black Sea Trade and Development</p> <p>Public Council set up at the NBU</p>
Country events	<p>Militants held pseudo referendum in some regions of Donetsk and Luhansk oblasts</p> <p>Early presidential elections held in Ukraine</p> <p>So called "DNR" and "LNR" have been declared terroristic organizations by Prosecutor General's Office of Ukraine</p> <p>Further outflow of deposits from the banking system</p>	<p>The economic part of EU-Ukraine Association Agreement has been signed</p> <p>Ukraine has set the first unilateral ceasefire in the ATO area</p> <p>A moratorium for foreclosure of household property pledged as collateral for fx loans has been introduced by a law of Ukraine</p> <p>Valeria Gontareva has been appointed the Head of Board of the National Bank</p>
	MAY	JUNE

JULY	AUGUST	
<p>Policy rate has been raised by 3.0 p.p. to 12.5% per annum</p> <p>The rate on secured overnight refinancing standing facilities has been raised by 3.0 p.p. to 17.5% per annum and reduced to 15.0% per annum</p> <p>Control over timeliness of payments under foreign economic operations has been tightened</p> <p>FX transferred from abroad to the benefit of resident/nonresident individuals is paid in the amount of UAH 150 thousand per a banking day</p> <p>Requirement to the provisions for the fx funds borrowed from nonresidents reduced to 0% from 20%</p>	<p>The rate on secured overnight refinancing standing facilities has been raised by 2.0 p.p. to 17.5% per annum</p> <p>Requirement to sell fx earnings in the IBFXM has been raised from 50% to 100%</p> <p>The term for settlements under export-import operations has remained 90 days</p> <p>Technical Procedure for the National Bank of Ukraine transactions with banks has been improved</p> <p>The limit on extending a loan to DGF in the amount of 95% of quadrupled earnings has been removed</p> <p>Refinancing against collateral released from pledge on the day of tender is allowed</p> <p>Requirement to hold funds on a separate account with the NBU has been removed except for problem banks and banks with debts before the NBU and curators</p>	NBU Monetary Policy
<p>The rules for the emergency operation of the banking system have been put straight</p> <p>The NBU task force has been established to facilitate recovery of banking system operation in the occupied territories</p> <p>The NBU force task has been established on maintaining banks assets and liabilities</p> <p>FINROSTBANK PJSC, European Gas Bank PJSC and Bank ZOLOTI VOROTA JSC have been declared insolvent and put under temporary administration</p> <p>Banking license withdrawn from and liquidation procedure launched for Commercial Bank INTERBANK PJSC, Zakhidinkombank PJSC</p>	<p>Strategic program for the banking system reforming and reorganization of the NBU</p> <p>Requirement for gradual increase of banks' authorised capital to UAH 500 million by July 2024 has been introduced</p> <p>The procedure for applying corrective measures for violating banking law and the procedure for audit inspections have been improved</p> <p>Application of punitive measures to banks violating the economic ratios due to occupation of Crimea and special operation regime introduced in Donetsk and Luhans oblasts has been suspended</p> <p>The concept of systemic violations of the laws regulating the financial monitoring issues</p> <p>CB UFS PJSC and TERRA BANK PJSC have been declared insolvent and put under temporary administration</p> <p>Banking license withdrawn from and liquidation procedure launched for AVTOKRAZBANK PJSC</p>	Regulation and Supervision
<p>Financial company «Suchasni Rozrahunkovi Systemy» has been granted a license for money transfers in domestic currency without opening accounts</p> <p>The procedure for e-money operations has been improved and harmonized with EU standards</p> <p>The task force has been established to coordinate implementation of the Strategic Program for Arranging Cash Circulation in Ukraine</p> <p>Commemorative coins "Leo (Little Lion)", "John James Hughes", "180 Years of Taras Shevchenko National University of Kyiv" have been issued</p>	<p>Financial company "Suchasni Kredytni Tekhnolohii" has been granted a license for money transfers in domestic currency without opening accounts</p> <p>3 domestic payment systems recorded in the Register of payment systems</p> <p>All types of financial operations and money transfers by banks to nonbank financial institutions in residential areas that are not under control of the Ukrainian authorities have been suspended</p> <p>Banks have been authorized to extend services using porable means of extending services until recovery of operation in a standard mode</p> <p>The issue of opening special individual accounts for wages and social payments, as specified in the Tax Code</p> <p>Commemorative coins "Virgo (Little Girl)", "On Motifs of O.P.Dovzhenko's Works" have been issued</p>	Cash circulation and noncash payments
<p>Accounting of loan, deposit transactions, loan loss provisioning and usage of provisions have been improved</p> <p>Participation in the events of the Day of Ukraine at the IMF and the World Bank</p> <p>Participation in negotiations between the Government of Ukraine and the Government of Japan on credit facility support of economic reforms</p> <p>Rules of the Public Council at the NBU has been approved</p>	<p>Rules for compiling statistical reporting have been improved</p>	Other NBU activities
<p>Coalition rupture in the Verkhovna Rada of the VII convocation</p> <p>ATO continues in the east of the country</p>	<p>Early dissolution of the Verkhovna Rada according to the Constitution of Ukraine</p> <p>The Russian Federation's direct military aggression</p> <p>Higher deposit outflow from the banking system and higher demand in the fx market</p>	Country events
JULY	AUGUST	

	SEPTEMBER	OCTOBER
NBU Monetary Policy	<p>The NBU Council has approved 2015 Monetary Policy Fundamentals and Strategy for implementing the inflation target on the mid-term horizon</p> <p>Requirement to sell fx earnings in the IBFXM has been reduced from 100% to 75%</p> <p>The banks that violated the limit of the total long open fx position have been allowed to take part in the NBU fx interventions</p> <p>The ban on some fx operations has been retained. The limit on cash fx sale to one person per one banking day tightened to UAH 3 thousand.</p> <p>Support of bank liquidity is done under conditions of solvency and no debts under loans received from the NBU</p> <p>Changes in the effective terms and conditions of financial recovery loans are determined considering monetary capabilities</p> <p>The size of collateral has been set for stabilization loans, the list of limits and requirements to banks has been complemented</p> <p>The list of collateral eligible for DGF loans has been extended, terms of the loans prolonged, requirements to collateral softened</p>	<p>The interest rate on DGF loans has been set as the policy rate</p> <p>Foreign exchange control has been imposed on the fx operations under the initial agreements and in the area of intellectual property rights</p> <p>The procedures for foreign economic activities of some industries have been simplified</p> <p>The limit on sale of investment metals to one person per one banking day has been tightened to UAH 3000.</p> <p>In case of violating the reserve requirement ratios, the banks have the right to purchase foreign exchange only for exchange transactions with customers.</p> <p>The decision on possible change of terms and other conditions of using refinancing loans and repo</p> <p>The list of principal collateral under stabilization loans has been extended</p> <p>Technical procedure for the NBU depository and clearing activities has been improved</p>
Regulation and Supervision	<p>CB ACTIVE BANK PJSC, AKTA-BANK PJSC, EKSPOBANK PJSC, Bank Demark PJSC and PORTO FRANKO PJSC declared insolvent and put under temporary administration</p> <p>Banking license withdrawn from and liquidation procedure launched for CB PROMECONOMBANK PJSC, Starokyivskiyi Bank PJSC and CB PIVDENKOMBANK PJSC</p>	<p>The procedure of arranging and performing inspections of the issues related to financial monitoring has been improved</p> <p>Banking license withdrawn from and liquidation procedure launched for FINROSTBANK PJSC</p>
Cash circulation and noncash payments	<p>Financial Company MBK, MSBFINANCE LLC, FIRST UKRAINIAN PAYMENT SYSTEM LLC and Financial Company OMP-2013 LLC has been granted a license for money transfers in domestic currency without opening accounts</p> <p>The procedure for operation of INTERPLANT as a payment infrastructure service provider has been agreed</p> <p>Rules for use of e-money by Bank Mykhailivskiyi PJSC have been agreed</p> <p>Master Card with its 82 participants and 2 domestic payment systems recorded in the Register of payment systems</p> <p>Commemorative coins "Nicholas Roerich", "Cyclamen coum (Kuznetzovii)" have been issued</p> <p>The NBU functions in running correspondent accounts have been optimised</p>	<p>Financial Company KONTRAKTOVYI DIM LLC and CENTR INTERNET PLATEZHIV LLC have been granted a license for money transfers in domestic currency without opening accounts</p> <p>Rules for use of electronic money by CB PRYVATBANK PJSC have been agreed</p> <p>Money Gram with its 28 participants and 3 domestic payment systems recorded in the Register of payment systems</p> <p>Amendments have been introduced into the procedure for purchasing equipment for cash production and processing</p> <p>Commemorative coins "500 Years of the Battle of Orsha", "70th Anniversary of Ukraine's Liberation from Fascist Invaders", "Ostap Vyshnia"</p> <p>Interbank domestic currency transfer rules have been improved</p>
Other NBU activities	<p>Accounting of fixed and intangible assets of banks has been improved</p> <p>Second tranche of the loan under Stand By Arrangement program in the amount of USD 1.4 billion has been received</p> <p>The World Bank has made a decision on extending a loan to Ukraine in the amount of USD 500 million under the DPL program</p> <p>Participation in XI Annual meeting of Yalta European Strategy</p> <p>XV meeting of the task force "Banks" of the Ukrainian-German high-level group of economic cooperation</p> <p>Requirements to the activity of the Public Council at the NBU have been improved and streamlined</p> <p>The practice has been launched to hold meetings of the NBU management with heads of 40 large banks of Ukraine</p>	<p>Requirements to compiling and submitting reports on fx operations have been updated</p> <p>Participation in Annual Meetings of Governors of the IMF and the World Bank</p> <p>Weekly meetings of the NBU management with heads of 40 top banks</p>
Country events	<p>Minsk Agreement on resolving the conflict in the east of Ukraine has been signed</p> <p>Attempts to set the second ceasefire regime in the ATO area</p> <p>Simultaneous ratification of the EU-Ukraine Association Agreement by the Verkhovna Rada of Ukraine and the European Council</p> <p>Higher deposit outflow from the banking system and higher demand in the fx market</p>	<p>Early elections to the Verkhovna Rada of Ukraine</p> <p>Fines for loan debts are temporarily cancelled for residents of the towns in the ATO area</p>
	SEPTEMBER	OCTOBER

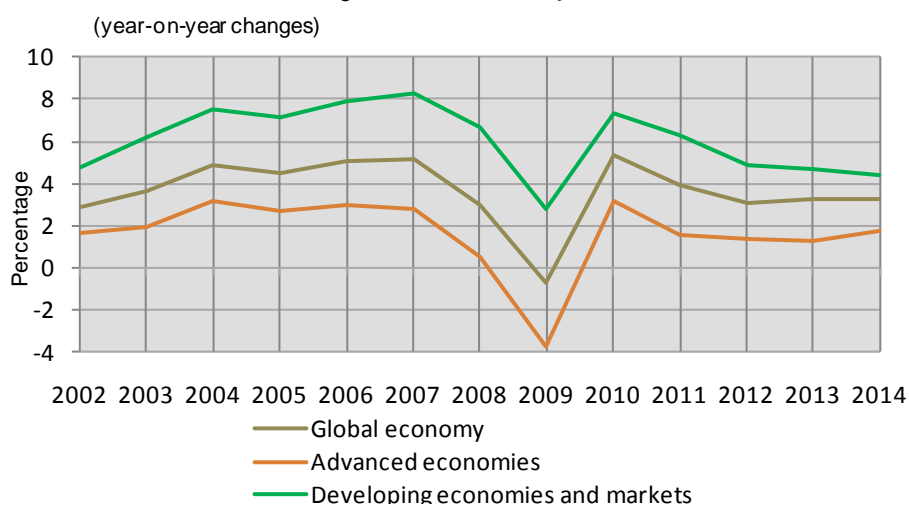
NOVEMBER	DESEMBER	
<p>Policy rate raised by 1.5 p.p. - to 14.0% annual</p> <p>Technical procedure for fx auctions has been streamlined and the time of operation of the Trade Confirmation System changed</p> <p>The requirement to sell 75% of fx earnings has been prolonged</p> <p>The term for settlements under export-import operations has remained 90 days</p> <p>The terms and conditions for investors' activities under product distribution agreements have been eased</p> <p>Specific features of applying the fx laws to the temporarily occupied free economic zone "Crimea"</p> <p>The procedure for handling accounts for representatives of foreign investors under the product distribution agreements in Ukraine</p>	<p>Monetary Policy Committee established</p> <p>The procedure for provisioning and maintaining the reserves has been updated. New periods for keeping the reserves have been established.</p> <p>The procedure for bank liquidity regulation has been improved. The NBU has been empowered to do direct debiting of funds until the bank's debts are paid in full</p> <p>The procedure for extending stabilization loans and setting limits on bank activities for the period of using the loan</p> <p>The interest rate on the stabilization loan has been set as the policy rate + 1.5% per annum</p> <p>The possibilities to support DGF's liquidity by the NBU have been widened</p> <p>The procedure for early redemption of the deposit certificate initiated by a bank has been streamlined</p> <p>FX transfers abroad on the basis of individual licences are allowed</p> <p>The procedure, terms and conditions of NBU's approval of typical forms of derivatives under each type before trading for stock exchanges have been streamlined</p>	NBU Monetary Policy
<p>Minimum regulatory capital ratio (N1) has been increased from UAH 120 million to UAH 150 million, to be completed by 10 July 2017</p> <p>The limit on early repayment of fx loans from residents on terms of subordinated debt, provided the funds are contributed to increase the bank's authorized capital, has been removed</p> <p>The requirements on minimum regulatory capital (N1) for a bridge bank have been streamlined</p> <p>Banks have been allowed to put mortgages of internally displaced persons into the quality category as of the start of temporary occupation of a territory of Ukraine</p> <p>CityCommerce Bank PJSC, VAB Bank PJSC, VBR PJSC, LEGBANK PJSC and Bank Pershyi PJSC/ BG BANK PJSC declared insolvent and put under temporary administration</p> <p>Banking license withdrawn from and liquidation procedure launched for CB Ukrainian Financial Svit PJSC and European Gas Bank PJSC</p>	<p>The procedure for calculating the ratios of regulatory capital to assets and liabilities has been improved</p> <p>Minimum requirements to establishing internal control in banks have been introduced</p> <p>The procedure for identifying systemically important banks has been introduced</p> <p>The list of exemptions from the corrective measures for the banks that suffered due to occupation of Crimea and ATO area has been extended and prolonged to 1 January 2019. The acceptable conditions and limits in their operation have been clarified</p> <p>Bridge bank KRYSTALBANK PJSC has been granted a banking licence and recorded in the State Register of Banks</p> <p>Bank CAMBIO PJSC and UKRBIZNESBANK PJSC declared insolvent and put under temporary administration</p> <p>Banking license withdrawn from and liquidation procedure launched for Bank ZOLOTI VOROTA PJSC, TERRA BANK PJSC and CB ACTIVE BANK PJSC</p>	Regulation and Supervision
<p>The procedure for performing transactions using electronic means of payment has been improved</p> <p>Financial company ELAENS LLC. and FINTECO LLC have been granted a license for money transfers in domestic currency without opening accounts</p> <p>A license for money transfers in domestic currency without opening accounts has been withdrawn from FINOD LLC.</p> <p>Rules for use of e-money by PINbank PJSC have been agreed</p> <p>2 domestic payment systems recorded in the Register of payment systems</p> <p>Rules for protection of banks' premises, cash collection and fx values transportation</p> <p>Commemorative coins "75 Years of the Volyn Oblast", "75 Years of the Ivano-Frankivsk Oblast", "75 Years of the Lviv Oblast", "75 Years of the Rivne Oblast", "75 Years of the Ternopil Oblast", "Vasyl Lypkivskyi"</p> <p>Procedure for issue of electronic payment means and performing operations with them has been updated</p> <p>Standards for supervision (oversight) of payment and settlement systems of Ukraine have been introduced</p>	<p>Financial Company "№1" LLC. and NSP LLC. have been granted a license for money transfers in domestic currency without opening accounts</p> <p>The procedure for operation of SYSTEM GROUP Ukraine LLC. and Globalmoney LLC. as payment infrastructure service providers has</p> <p>Rules for use of e-money by BANK VOSTOK PJSC and OSCHADBANK JSC</p> <p>Visa with its 92 participants recorded in the Register of payment systems</p> <p>The procedure for banks' operation in SEP and handling cash under emergency regime have been improved</p> <p>100 hryvnia banknote of new design have been presented</p> <p>Commemorative coin "Year of the Goat" has been issued</p>	Cash circulation and noncash payments
<p>Participation in 2nd Ukraine Financial Forum of Vienna Initiative</p> <p>Participation in 3rd round of negotiations on the Draft Agreement between Japan and Ukraine on facilitation and protection of</p> <p>Participation in XIX World Congress of Accountants</p> <p>Second All-Ukrainian Week of Financial Literacy has been held</p> <p>Public Council at the NBU worked on resolving the issue of fx mortgages</p> <p>Weekly meetings of the NBU management with heads of 40 top banks</p>	<p>It is allowed to compile and publish notes to 2014 financial reporting, provided the information is disclosed according to IFRS</p> <p>Negotiations with Qatar on drafting the Agreement on facilitation and mutual protection of investments</p> <p>Weekly meetings of the NBU management with heads of 40 top banks</p>	Other NBU activities
<p>Militants held pseudo referendum in breach of Minsk Agreement</p> <p>VIII convocation of the Verkhovna Rada of Ukraine has formed a coalition and started its work</p> <p>Regular violations of the ceasefire regime by separatists</p> <p>Higher deposit outflow from the banking system and higher demand in the fx market</p>	<p>Legal changes in the fiscal area. 2015 Budget has been approved</p> <p>Regular violations of the ceasefire regime by separatists</p> <p>Higher deposit outflow from the banking system and higher demand in the fx market</p>	Country events
NOVEMBER	DESEMBER	

MACROECONOMIC CONDITIONS

OVERVIEW OF THE WORLD ECONOMY AND INTERNATIONAL MARKETS

The world economic growth has been volatile and remained at the level of 2013 - 3.3%³. Such developments account primarily for modest growth of economic activity in advanced economies and slowing economic growth in emerging markets against the background of escalating global geopolitical conflicts.

Figure 1. Global GDP dynamics



Economic recovery in the USA continued. Thus, in 2014, the country's real GDP grew by 2.4% (2.2% in 2013). Economic growth of the euro area countries was unstable. The real GDP growth of the euro area countries in the year under review was 0.9% ("minus" 0.5% in 2013). In 2014, the economic growth in Russia and China was the lowest in the last 5 and 24 years respectively - 0.6% and 7.4% (1.3% and 7.7% respectively in 2013).

Moderate growth in import demand from leading economies of developed countries and demand reduction from emerging markets affected the global growth of trade in goods and services, with its volume decreasing to - 3.1% in 2014 from 3.4% in 2013.

A weak external demand and a rapid decline in world prices for oil and other commodities led to the deceleration of inflation in most advanced economies and emerging economies. The average annual headline inflation in advanced countries was moderate in 2014 and virtually the same as in the previous year - 1.4%. In emerging markets, the average annual headline inflation decreased by 0.5 p.p. to 5.4% in 2014.

Dynamics of world commodity prices in the international commodity markets during the reporting year was mainly downward due to excessive demand,

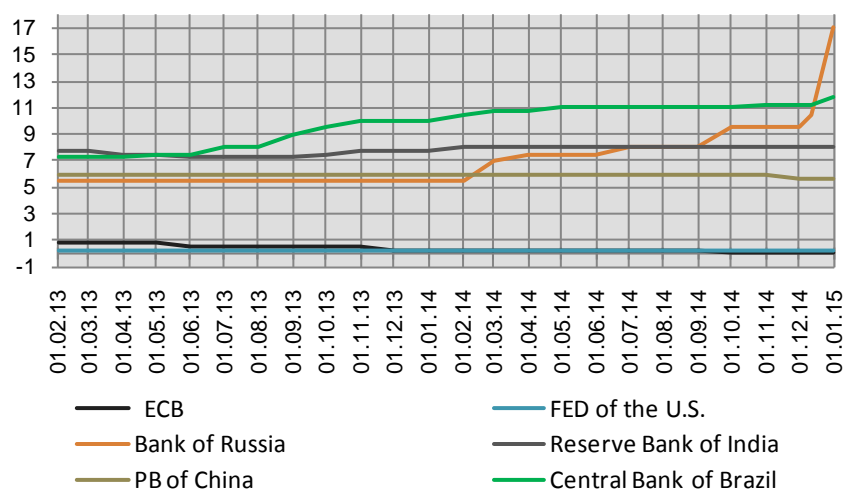
³ IMF World Economic Outlook (January 2015).

strengthening of the US dollar against major currencies and a drop in global demand, particularly from China.

On average, the stock market oil prices decreased in 2014⁴. In particular, the price of a barrel of oil "UK Brent "decreased to USD 98.8 compared to USD 108.8 in 2013, which was conditioned by the rapid fall in the price of this brand of oil during the second half of the year, when the price of one barrel fell by more than 44.0% - to USD 62.2 at the end of 2014. Prices of non-energy products during the reporting year also declined, particularly for steel - by 17.0% and cereals - by 9.0%, including wheat and corn – by 7.5% and 9.5% respectively.

During the year under review, leading central banks of advanced economies continued to introduce the accommodative monetary policy in order to accelerate economic growth against a backdrop of the slowing inflation. However, the Fed of the U.S. has definitively reduced the quantitative easing program due to the economic recovery and significant improvements in the labor market, though retained the policy of reinvesting the revenues from the treasury bills in its possession. Consequently, in the global fx markets the US dollar strengthened by 12.8% against the basket of the leading world currencies, including by 12.2% to the euro, in 2014.

Figure 2. Dynamics of key interest rates of the central banks of leading world's countries , % per annum



Source: Central banks of the countries.

⁴ Prices for oil and steel, as well as trading volumes are given on annual average basis. Source: IMF.

UKRAINE ECONOMY OVERVIEW

1. REAL SECTOR*

Economic situation in Ukraine significantly deteriorated in 2014. There was a dramatic decrease in production volumes in all main types of economic activities except agriculture. Inflationary pressures on economy increased, accompanied by a drop in real household income and respectively by the fall in the household purchasing power.

Among key factors that contributed to negative economic trends in 2014 were: military actions in the east of the country, rupture of interregional ties due to annexation of AR Crimea, narrowing both external and internal demand for production of domestic manufacturers, state funding reduction, deterioration of financial performance of enterprises etc. At the same time, large crops of grains harvested by agrarians in the year under review and liberalization of domestic goods access to EU markets positively influenced the economy of the country.

Table 1. Basic macroeconomic indicators of Ukraine

Indicators:	Growth (decline) rate, %				
	2010	2011	2012	2013	2014*
Nominal GDP					
(in actual prices), UAH billion	1 082.6	1 302.1	1 411.2	1 465.2*	1 566.7
Real GDP (in constant prices of 2007)	4.1	5.2	0.3	0.0*	-6.8
Consumer price index					
(before December of previous year)	9.1	4.6	-0.2	0.5	24.9
Price index of producers of industrial products					
(before previous year)	18.7	14.2	0.3	1.7	31.8
Unemployment rate					
based on ILO Methodology, %	8.8	8.6	8.1	7.7	9.7
Real wage	10.2	8.7	14.4	8.2	-6.5
Real available income	17.1	8.0	13.9	6.1	-8.4
BoP Current account					
balance (in % of GDP)	-2.2	-6.2	-8.1	-8.6	-4.0

*Macroeconomic indicators in 2014 and separate data in 2013 were provided excluding figures for the temporarily occupied Autonomous Republic of Crimea and the city of Sevastopol.

1.1. GROSS DOMESTIC PRODUCT

In 2014, indicators decreased in almost all economic sectors of Ukraine. As a result, the real GDP decreased by the year end by 6.8%. Nominal GDP in the reporting period made UAH 1 566.7 billion and as compared with 2013 increased by 6.9%.

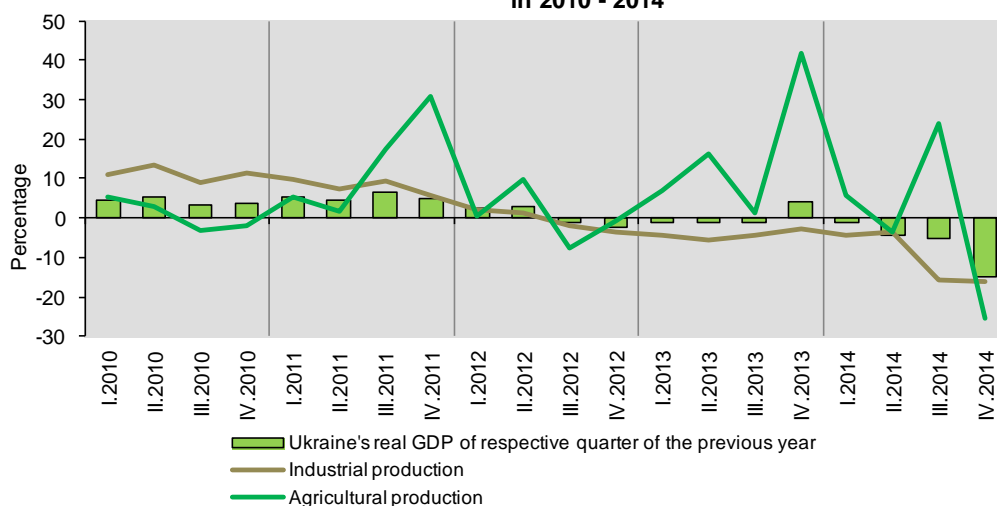
The most complicated situation in 2014 was in industry. Disruption of production capacities and transport infrastructure, breach of production interregional ties due to military unrest in the east of the country resulted in industrial output decrease by 10.1% for the year. Particularly, a reduction in production volumes of chemical agents and chemical products made 14.2%, metallurgical output - 14.5%, machine building - 20.6%.

The slowdown of real wage growth in the context of consumer demand decline and high inflation led to narrowing of domestic consumer demand and as a result retail trade turnover decreased by 8.6%.

Declining domestic investment demand during the year due to substantial deterioration of financial performance, state funding reduction and shrinking of banks' lending were prerequisites for a 20.4% decrease of construction output in 2014.

Ukraine's economic activity was supported by high indicators of agricultural sector in 2014. Favorable weather conditions for cropping grains in 2014 provided an increase in its agricultural output. Consequently, in a year, 63.9 million tons of grains were cropped, which by 2.5% outpaced the record harvest of 2013. In 2014, increase in agricultural output made 2.8%.

Figure 3. Real GDP of Ukraine, industrial and agricultural production in 2010 - 2014



Source: SSSU, the NBU calculations.

1.2. LABOUR MARKET AND HOUSEHOLD INCOME

The recession trends in Ukraine's economy affected the labour market indicators.

As of 1 January 2015, number of registered unemployed grew to 512.2 thousand persons, while the number of new jobs (vacant positions) decreased to 35.3 thousand. Accordingly, the burden on 10 vacant positions increased to 145 persons as of 1 January 2015 (103 persons on the respective date in 2014).

A great amount of back settlers from the ATO area of Donetsk and Luhansk oblasts was characteristic of the reporting year. But it didn't affected the official unemployment rate significantly - as of 1 January 2015, it made 1.9% of labor pool (1.8% in 2013). At the same time, the unemployment rate, calculated on the basis of ILO Methodology, increased to 9.7% of labor pool (7.7% in 2013).

In 2014, the nominal household income, calculated on the basis of ILO Methodology, increased as compared with the previous year by 3.6% and made UAH 1 531.1 billion. At the same time, the real disposable income decreased by 8.4%.

Monthly average nominal wage per one full-time employee in 2014 increased as compared with 2013 by 6.0% - up to UAH 3 480. However, against the rapid increase of consumer prices there was a decrease of real wage by 6.5% during the year.

During 2014, the wage arrears increased 3.2 times per year - to UAH 2.4 billion as of 1 January 2015 mostly owing to its accumulation in Donetsk and Luhansk oblasts.

1.3. INFLATIONARY DEVELOPMENTS ANALYSIS

Following a two-year trend of keeping the headline inflation rate low, in 2014 there was a rapid development of inflationary processes that accompanied the start of economic reforms. On the annual basis consumer prices increased by 24.9% due to depreciation of UAH/USD exchange rate, increase of administered prices and rapid increase of inflation expectations.

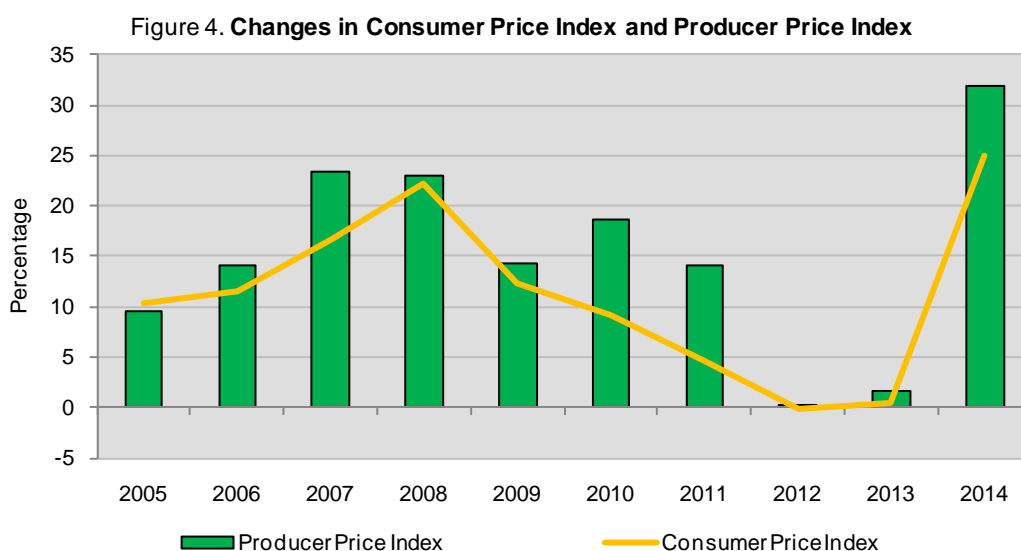
Decrease of exchange rate that during the year climbed by 22.8% primarily affected the basic CPI dynamics. Core inflation increase in 2014 was pushed by increase of prices on highly processed foods and increase of prices for non-food goods, substantial part of which is imported.

Increase of administered prices for goods significantly affected the general inflationary background in Ukraine. During 2014 they rose in price by 30.4% mostly due to increase in utility tariffs with aim to bringing them to sustainable level.

For the first time in the last four years the prices on raw foods increased (by 22.3%), particularly due to increase of their import prices as well as increase of costs on domestic production.

Despite the significant cut in US dollar prices for oil in the world markets, the cost of fuel in Ukraine was mainly influenced by the weaker hryvnia exchange rate. Consequently, fuel prices increased by 60.7% during the year.

In 2014, the producer price index growth, which made 31.8% on annual basis, has resumed. Significant effect on the prices dynamics in industry against the hryvnia devaluation background led to increase in prices on imported raw materials and energy, particularly on gas. Also the hryvnia exchange rate stimulated price growth in exported industries, where prices are determined as the hryvnia equivalent of external market prices.



1.4. BUSINESS OUTLOOK SURVEY

In 2014 the National Bank of Ukraine continued to interview heads/managers of Ukrainian enterprises regarding their business outlook. The findings reflected the difficult situation with the country's economy.

During the year, respondents expected deterioration of prospects for the development of their enterprises. Particularly, they decreased their assessments of financial and economic standing, investment spending, sales and quantity of staff within their enterprises. Due to that the Business Outlook Index⁵ at year end decreased to 96.1% (at 2013 YE - 111.5%).

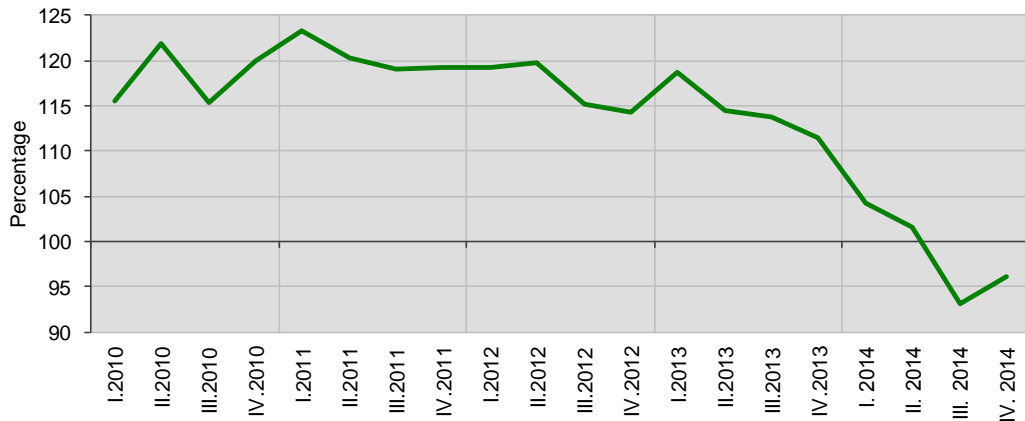
The pessimistic moods prevailed in respondents' expectations considering macroeconomic situation: enterprises continued to forecast the reduction in the output of goods and services, the inflationary and depreciation expectations strengthened.

⁵ The Business Outlook Index is an aggregate indicator of expected enterprises' development for the next 12 months. It is calculated on the basis of respondents' balances of responses in relation to changes in the financial and economic standing of enterprises and future economic activity.

During 2014 respondents mentioned the considerably more rigid bank lending terms that affected their plans for future borrowings: proportion of the respondents, which planned to take out bank loans, decreased to 36.7% (at 2013 YE - 43.3%).

The survey results proved the great interest of businesses in central bank activities - 90.1% of respondents were interested.

Figure 5. Business Outlook Index of Ukrainian enterprises for next 12 months in 2010 - 2014*



* Since Q1 2013, without data for the Autonomous Republic of Crimea and Sevastopol, since Q2 2014 -also without data for Donetsk and Luhansk oblasts.

Source: the NBU calculations based on surveys of enterprises

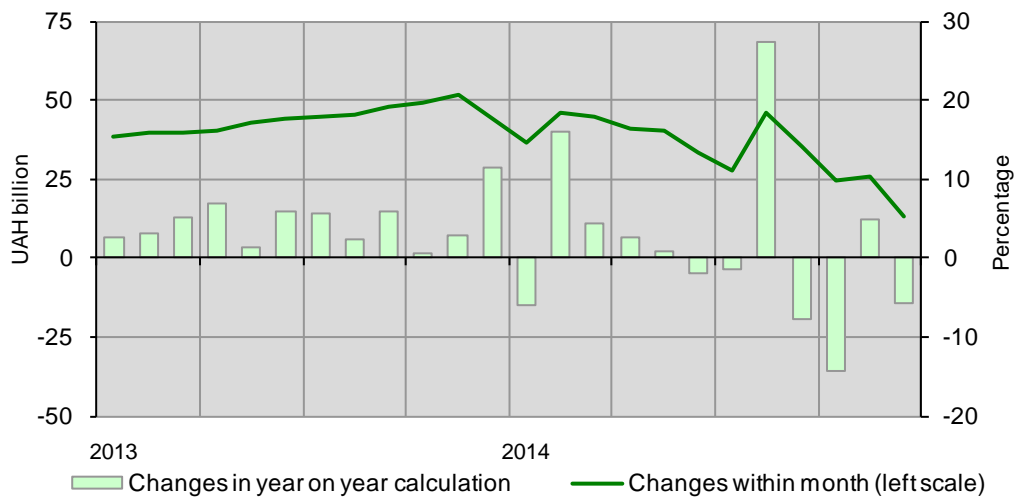
2. FINANCIAL SECTOR

2.1. CASH CIRCULATION

Extremely difficult macroeconomic and social and political situation in Ukraine affected the cash circulation.

At the end of December 2014 balances of monetary aggregate M3 amounted to UAH 956.7 billion and during one year increased by 5.3% or by UAH 47.7 billion, compared to growth of 17.6% in 2013.

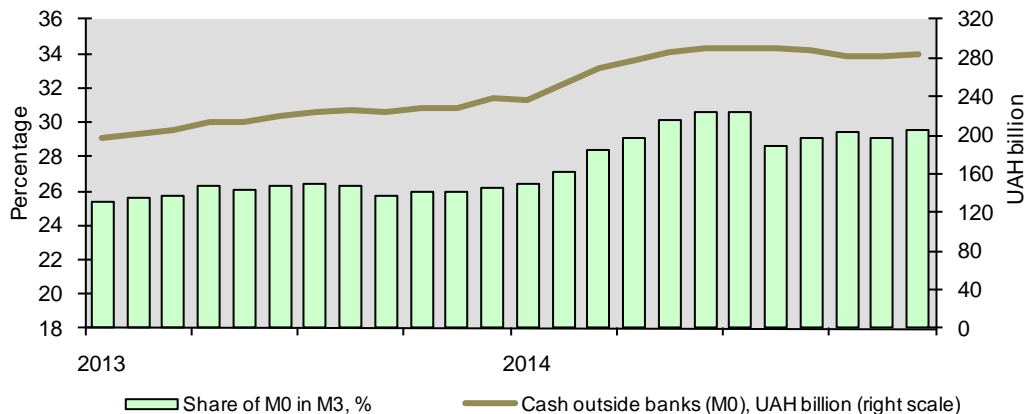
Figure 6. Dynamics of Monetary Aggregate M3



A key component of the money supply growth in the reporting year was cash in circulation outside the deposit-taking corporations mainly due to the outflow of deposits and their transformation into cash.

Cash in circulation outside the deposit-taking corporations increased by 19.0% or by UAH 45.2 billion in 2014 and as of the end of December made UAH 282.9 billion

Figure 7. Dynamics of Cash Outside Banks (M0) and its Share in the Money Supply (M3) in 2013 – 2014



(in 2013 - by 17.0% or by UAH 34.5 billion).

Percentage of cash in non-banking circulation grew by 1.0 percentage point compared with 2013 and reached 3.1% in 2014.

The share of cash outside banks in the money supply increased by 3.4 percentage points and was 29.6% as of 1 January 2015. The cash remained the main instrument of retail payments.

Overall, at the beginning of 2015, there were 2 918 million pieces of banknotes worth UAH 303.0 billion and 11 746 million pieces of change and circulating coins worth UAH 1.8 billion, as well as 9.1 million pieces of commemorative and investment coins worth UAH 48.9 million in circulation in Ukraine. The total volume of banknotes and coins as of 1 January 2015 compared to 1 January 2014 increased by UAH 43.0 billion to UAH 304.9 billion.

As of 1 January 2015, 64 banknotes (62 pcs. last year) and 249 small coins (10 pcs. more than as of 1 January 2014) fell on one person.

By their number in the structure of banknotes in circulation, the largest shares accounted for banknotes of UAH 100 (19.7%), UAH 200 (18.9%), UAH 50 (11.6%) and UAH 1 (14.7%). Among coins in circulation, the largest share have traditionally accounted for coins of 10 kopyikas (28.7%), 1 kopyika (20.8%), 5 kopyikas (13.5%) and 25 kopyikas (12.2%).

In 2014, the money supply remained a major component of funding of requirements to other sectors of the economy. In 2014, domestic credit increased by 25.4% or by UAH 306.9 billion to UAH 1 512.7 billion, and its dynamics during the year was diverse. The volumes ranged from UAH 1 204.4 billion to UAH 1 512.7 billion.

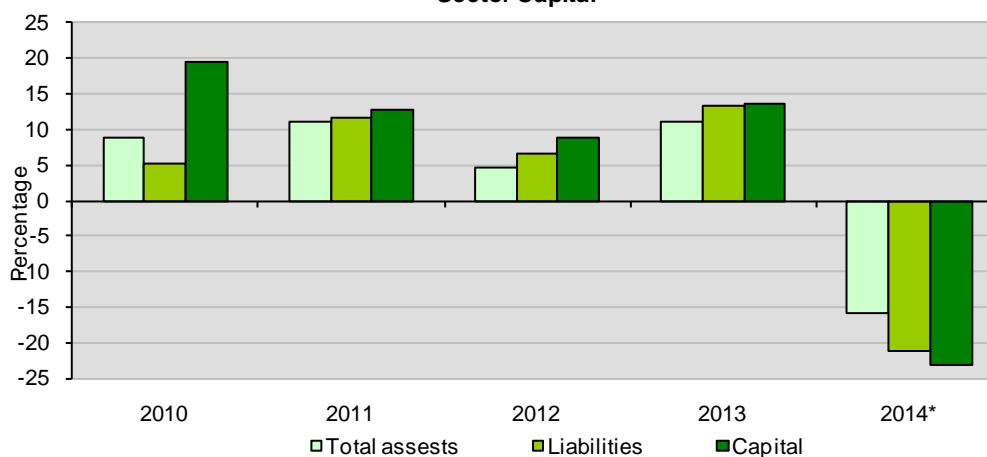
2.2. BANKING SECTOR

As of 1 January 2015, 182 banks were registered in the State Register of Banks, 162 of which had banking licenses (including three state banks - OSCHADBANK JSC, Ukreximbank JSC, Derzhzembank PJSC) and one (RODOVID BANK JSC) had the license of a remedial bank. The number of banks with foreign capital, which were operating in Ukraine, increased by 2 banks, and made 51 banks, 19 of which were banks with 100% foreign capital. Banks had 133 operating branches (out of 141 registered), 15 245 bank offices and 14 representative offices of Ukrainian banks, 7 of which were in the territory of Ukraine. 14 banking groups were operating at year end in Ukraine, two of which were recognized in 2014.

The majority of banks were situated in developed industrial regions of Ukraine. 71% of the total number of banking institutions concentrated in Kyiv and Kyiv region. Nearly 16% of the total number of banks operated in Dnipropetrovsk, Donetsk and Odesa regions jointly. Such lumpiness was attributed to the fact that mentioned regions are the most developed industrial regions in Ukraine and have rather high investment rating.

Among main challenges of the banking sector of Ukraine during the reporting year were considerable outflows from the banking system, worsening of the quality of banks' loan portfolios and loss-making. Increase of the banking sector key performance indicators at the end of 2014 took place only due to exchange rate adjustments of banks' assets and liabilities following hryvnia depreciation to main foreign currencies.

Figure 8. Growth of Total Assets, Liabilities and Ukrainian Banking Sector Capital



*Total assets and liabilities less difference in sale price for FX

According to annual grouping of banks by size of assets, in 2014, 15 banks were put to the 1st group, 20 banks - to the 2nd group, 23 banks - to the 3rd group and 122 banks - to the 4th group.

Table 2. Total assets, capital and liability concentration by groups of banks

Group	(Percent)					
	Total assets		Liability		Capital	
	01.01.2015	01.01.2014	01.01.2015	01.01.2014	01.01.2015	01.01.2014
1st group	73.3	64.9	72.8	65.3	74.5	58.4
2nd group	14.3	17.4	15.0	16.5	10.2	22.0
3rd group	7.3	7.8	7.4	8.4	6.9	6.7
4th group	5.1	9.9	4.8	9.8	8.4	12.9

In 2014, the assets, capital and liability concentration process was in progress in banks of the 1st group, where 73% of total assets of Ukrainian banks, 74.5% of capital and 72.8% of total amount of liabilities were concentrated as of 1 January 2015.

Assets

In 2014, total assets of banks in Ukraine (not adjusted to provisions under asset operations) in hryvnia equivalent increased by 8.0% (in 2013 – by 11.1%) and reached UAH 1520.8 billion, owing to a rise in foreign exchange assets – by 32.7%. Foreign exchange assets share in the total assets increased to 44.7% as of 1 January 2015 as compared with 36.4% as of 1 January 2014. At the same time, the total assets in domestic currency fell by 6.2% (by UAH 55.5 billion) and reached UAH 840.6 billion.

Banking sector assets increased by 3.0% to UAH 1 316.9 billion (in 2013 – by 13.4%).

A key component of growth of debts under the loans obtained during the year was loans, granted to business entities and nonbank financial institutions. This year, balances increased by 14.7% (by UAH 103.1 billion) and reached UAH 802.6 billion. Growth of total loans granted to the economy was due to increase of fx loans caused by the change of hryvnia exchange rate. Their volume increased by 58.4% (by UAH 142.1 billion) and reached UAH 385.3 billion, and loans volume granted in domestic currency decreased by 8.5% (by UAH 39.0 billion) and reached UAH 417.3 billion.

Within loans to individuals loan debts balances decreased by 11.9% (or by UAH 13.6 billion) and reached UAH 101.2 billion. Loans to individuals were generally growing – by 6.7% (or by UAH 11.3 billion) – to UAH 179.0 billion.

In 2014, lenders experienced difficulties with servicing of the loans that significantly strengthened the banking business riskiness. The share of NPLs in total loan debts of banks increased from 12.9% to 19.0% in a year. Besides, the payment arrears under the loans granted increased by 92.5% (by UAH 65.3 billion) - to UAH 135.9 billion (13.5% of the total loans).

Limited lending ability (due to considerable real sector risks) forced the banks to increase investments in securities, volume of which grew by 22.2% (by UAH 30.6 billion) and reached UAH 168.9 billion.

In spite of constrained lending, funds on correspondent accounts opened with other banks r increased by 27.7% in a year and reached UAH 99.8 billion.

Cash and banking metals fell by 22.1% to UAH 28.3 billion during the year. In particular, cash balances in the cash desks of banks decreased by 9.3% to UAH 21.9 billion in 2014. Cash inflows to the cash desks of banks decreased by 10.0% to UAH 1418.4 billion (in 2013 increased by 9.5%). Receipt of funds to the accounts under household deposits decreased the most (by 30.6% to UAH 212.4 billion) as well

as the returns from all kinds of services (by 12.2% to UAH 115.5 billion). Cash issuance from banks' cash desks this year decreased by 9.2% to UAH 1463.0 billion (in 2013 increased by 11.1%). Cash withdrawals from households deposit accounts reduced the most (by 23.2% to UAH 304.1 billion), as well as the cash issuance for purchasing agriproducts (by 40.1% to UAH 36.9 billion). The balance of FX operations (cash inflows excess over issuances for FX purchased) increased by UAH 2.0 billion and reached UAH 25.6 billion.

Liabilities

Total amount of liabilities of banks in the reporting year grew by 7.7% (or by UAH 83.3 billion) and, as of 1 January 2015, made UAH 1168.8 billion (in 2013 the growth made 13.3%). Liabilities in foreign currency during the year increased by 27.2% (by UAH 135.8 billion) – to UAH 634.5 billion, while in national currency – decreased by 8.9% (UAH 52.5 billion).

Received deposits constituted the main part of banks' liabilities: as of 1 January 2015 funds due to households made 35.6% of the total amount of liabilities, funds due to entities made 24.6%. The total number of accounts opened by clients as of 1 January 2015 made 117.5 million items, 86.0% of which were current accounts.

The main deposit outflow during the reporting year was observed in households' accounts - households' funds decreased by 4.0% (by UAH 17.4 billion) and reached UAH 416.4 billion (in 2013 increased by 19.2%). Among them the funds in domestic currency fell by 21.4% (by UAH 53.2 billion) - to UAH 195.0 billion.

Instead, funds of economic entities during the year increased by 12.1%, or by UAH 31.1 billion and reached UAH 287.7 billion. Funds in domestic currency made over the half of economic entities' funds (59.8%). In 2014, the amount of these funds fell by 2.5% (by UAH 4.4 billion) and reached UAH 172.0 billion, and the amount of funds in foreign currency grew by 44.3% (UAH 35.5 billion).

During the year, the share of interbank funds grew within bank lending resources by 12.0% as compared with 10.1% as of 1 January 2014.

Capital

Capital of Ukrainian banks in 2013 increased by 13.7%, or by UAH 23.3 billion (in 2012 - by 8.9%) and at the year-end made UAH 192.6 billion. The share of capital in banks' liabilities as of 1 January 2015 made 15.1% (as of 1 January 2014 - 15.0%). In 2013, the *authorized capital* increased by 5.7% (by UAH 10.3 billion) and reached UAH 185.2 billion, which increased the capitalization level of the banking sector.

In 2014, *the share of the foreign capital* in the registered authorized capital of Ukrainian banks fell by 5.5 percentage points to 34.0%. As of 1 January 2015, the foreign capital in Ukraine was represented by 26 countries. The highest shares within

the total amount of foreign capital belonged to Cyprus – 31.8%, the Russian Federation – 30.7% and Austria – 12.3%.

Table 3. Structure of banks by capital amount

No.	Bank capital amount	01.01.2015		For reference: 01.01.2014	
		Number of Banks	Percentage	Number of Banks	Percentage
1.	Up to UAH 50 million	17*	10.4	-	-
2.	From UAH 50 million to UAH 120 million	14	8.6	1	0.5
3.	From UAH 120 million to UAH 180 million	42	25.8	63	35.0
4.	From UAH 180 million to UAH 240 million	16	9.8	23	12.8
5.	Over UAH 240 million	74	45.4	93	51.7
Total number of operating banks		163	100.0	180	100.0

* 14 banks were under temporary administration, 2 banks didn't provide reports and 1 more bank was registered as a bridge bank.

Banks' *regulatory capital* decreased in 2014 by 7.8% (UAH 16.0 billion) - to UAH 188.9 billion. Such decrease was primarily caused by putting 17 banks under liquidation⁶ and losses due to provisioning.

During 2014, the *regulatory capital structure* changed. Particularly, authorized capital share (part of Tier 1 capital) in regulatory capital structure decreased to 59.2% from 65.7% as of 1 January 2014. Instead, the subordinated debt share (part of Additional capital) in regulatory capital increased to 17.6% from 11.4% as of 01 January 2014, and the share of contributions to non-registered authorized capital (part of Tier 1 capital) - to 9.1% (as of 1 January 2014 - 5.5%).

Regulatory capital adequacy of the banking sector in 2014 decreased to 15.60% (as of 01 January 2014 - 18.26%), which primarily accounted for the regulatory capital decrease.

Income

During 2014 *banks' income* increased as compared with 2013 by 24.5% (by UAH 41.3 billion), and made UAH 210.2 billion as of 1 January 2015.

Interest income was the principal income item, as before, though its share in the total income decreased during the year by 4.9 of percentage points - to 72.0%. Interest income volume as compared with previous year increased by 16.4% (by UAH

⁶ As of 01.01.2014 the total amount of regulatory capitals of these banks made UAH 22.1 billion, the amount of authorized capitals - UAH 11.9 billion.

21.3 billion) - to UAH 151.3 billion. The largest share among the interest income fell on economic entity lending income (UAH 101.0 billion, or 48.0%).

Commission income of banks increased as compared with previous year by 13.2% (by UAH 3.3 billion) and its share decreased by 1.4 percentage point to 13.4%. *Trading outcomes* as compared with 2013 increased by 12.2% and made UAH 15.5 billion (7.4% of income of banks).

Expenditures

Banks' expenditures as compared with previous year increased by 57.2% (by UAH 95.7 billion) - to UAH 263.2 billion.

Expenditure increase during the reporting year was primarily caused by the increase in provisioning for possible asset operations losses due to deterioration of banks' loan portfolio quality. Volume of allocations to provisions as compared with the respective period of previous year increased 3.7 times, and as of 1 January 2015 made UAH 103.3 billion, or 39.3% of all banks' costs (as compared with 16.7% in 2013). Dynamics of allocations to provisions was changing during the year following the general social and political situation in the country.

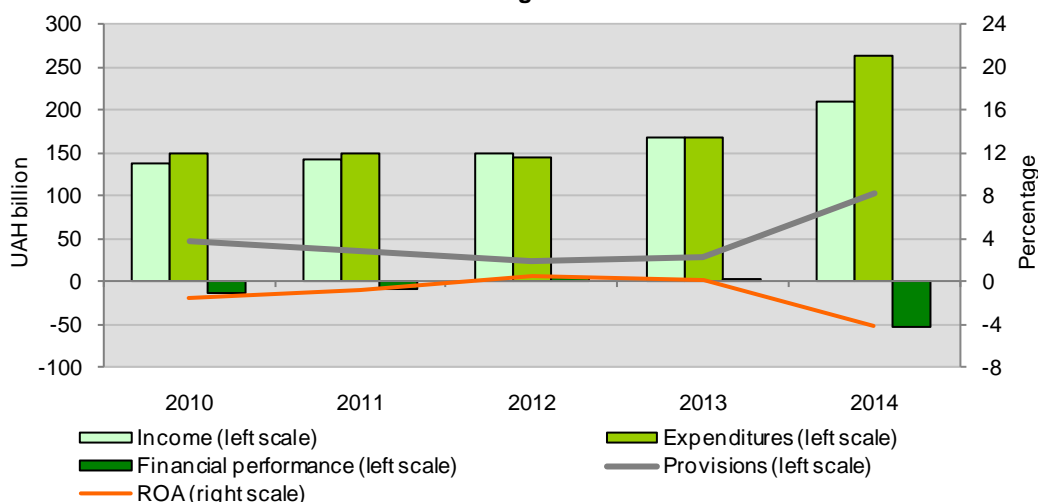
Interest expense as compared with 2013 increased by 20.1% (by UAH 16.3 billion) - to UAH 97.2 billion, and its share increased from 48.3% to 36.9%.

Total administrative expenses increased by 9.7% (by UAH 3.9 billion) - to UAH 44.6 billion that made 17.0% of expenditures.

The financial performance of banks

Banking sector activity was loss-making. In 2014, the banking sector loss made UAH 53.0 billion (in 2013 - UAH 1.4 billion of profit).

Figure 9. Dynamics of Income, Expenditures and Performance of the Banking Sector of Ukraine



Negative financial result of banks mainly was formed by banks of the 1st group, which were granting loans to large-scale projects and suffered considerable losses due to AR Crimea occupation and the situation in the east of Ukraine.

Table 4. Concentration of income, expenditures and financial performance by groups of banks

Group	Income, % out of total income		Expenditures, % out of total expenditures		Financial performance, UAH billion	
	01.01.2015	01.01.2014	01.01.2015	01.01.2014	01.01.2015	01.01.2014
1st group	71.2	64.3	69.0	63.0	-31.9	3.1
2nd group	14.6	16.0	15.4	16.4	-9.9	-0.4
3rd group	8.7	8.7	9.4	8.3	-6.4	0.8
4th group	5.5	11.0	6.2	12.3	-4.8	-2.1

Banks expenditures/income ratio in 2014 made 125.2% (as compared with 99.1% in 2013), *ROA* made “-” 4.07% (0.12% in 2013), *ROE* – “-” 4.07% (0.81% in 2013).

2.3. FINANCIAL MARKETS AND INFRASTRUCTURE

Deposit and credit market

Social and political tension in the country and unfavorable macroeconomic trends, which were strengthened by the hostilities in the east of the country, determined the loans market dynamics in 2014.

Interest rates under operations with bank’s clients

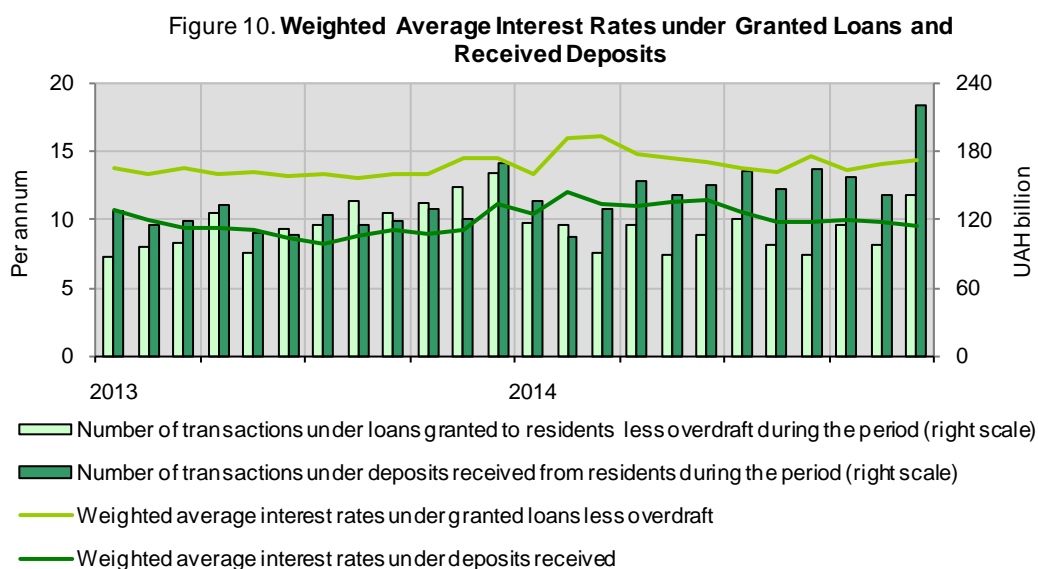
The average monthly amount of the loans received in 2014 under new loan agreements increased to UAH 150.9 billion from UAH 124.2 billion in the previous year mainly due to devaluation factor as well as increase in the number of agreements for one month term (characteristic of the economic agent uncertainty period). In 2014, *the total amount of new deposits* made UAH 1 811.3 billion; compared with 2013, it increased by 21.5%.

For preventing deposit outflows, banks increased the costs of attracting clients’ funds. *The average weighted interest rate on new deposits* in 2014 compared with 2013 increased by 1.0 of percentage point - to 10.5% per annum due to its growth during first seven months. At the same time increase of the interest rates on clients’ deposits was restrained by the amount and value of asset-side operations of banks. Since August, the interest rate on deposits decreased and was fluctuating at about 10% per annum. During the year, deposits value fluctuations were determined by the dynamics of the interest rates in domestic currency. In 2014, the average weighted interest rate on new

deposits received in domestic currency made 11.9% per annum and 6.7% in foreign currency.

Amount of loans granted during the year under new agreements decreased due to changes in effective demand on loans (the number of reliable borrowers decreased due to declining economic activity) and reduction in banks' resource base. So, the average monthly amount of the new loans received in 2014 decreased to UAH 122.7 billion from UAH 136.8 billion in 2013, including loans less overdraft to UAH 107.8 billion from UAH 119.6 billion. The total amount of the new loans decreased by 10.3% and reached UAH 1 472.8 billion, including loans less overdraft by 9.8% to UAH 1 294.0 billion.

The dynamics of *market interest rates* on new loans was divergent on the background of different stages of social and political tension during 2014. Value of loans under the agreements entered was restrained by creditworthiness of borrowers



and return of other asset-side operations of banks, and did not fully reflect the objective value of borrowed funds (due to growth in dominance of qualitative parameters while making a credit decision). Banks strengthened rigid standards and criteria for selection of both counterparties and eligible collateral. So, in February and March, the peaking growth in average weighted interest rate on new loans was observed (less overdraft) - to 16.1% per annum due to its growth in national currency (to 20.3% per annum in February). Since April, the value of new loans gradually decreased to 13.4% per annum in August, and then remained within a range of about 13.6 – 14.6% per annum. Instead, average weighted interest rate on new loans granted in foreign exchange was varying at the most narrow range - 8.5% – 9.5% per annum, and its peaking points have accounted for April and September, the periods following the significant hryvnia devaluation against foreign currencies. This year, average weighted interest rate on new loans made (less overdraft) 14.4%, and it increased compared with the previous year by only 0.8

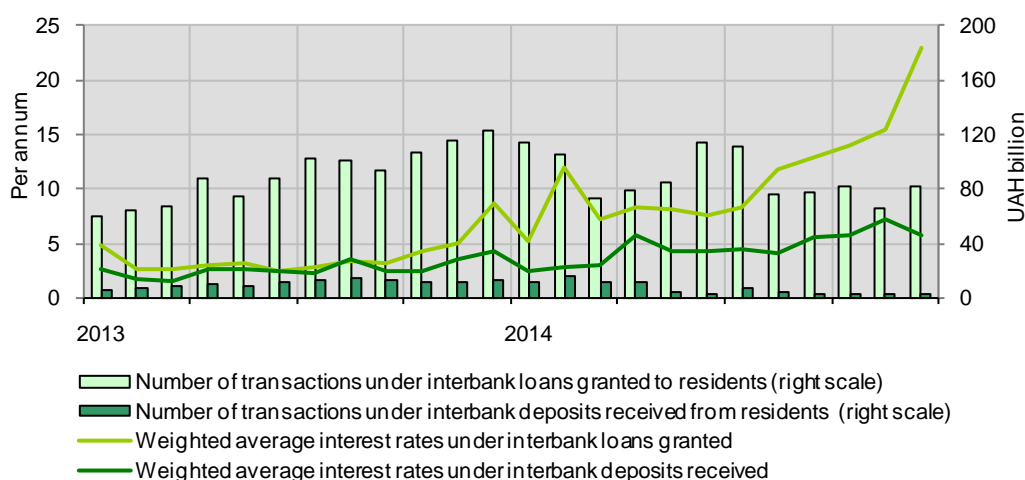
percentage point. It was possible due to increase of its hryvnia share by 1.3 percentage point to 17.1% per annum. The average weighted cost of foreign currency loans decreased by 0.4 percentage points and reached 9.0% per annum.

Interest rates on the interbank market

In 2014, the interbank loan and deposit market narrowed. As compared with 2013, *the total amount of interbank loans* decreased by 1.6% and reached UAH 1 067.1 billion and the interbank deposits dropped by 36.6% to UAH 83.2 billion. The share of interbank agreements in national currency increased significantly during the year to 90.2% on loans and to 60.6% on deposits in December compared with 54.8% and 16.0% in January respectively.

Further demand on interbank cash under conditions of deposits outflow and the consistent steps of the National Bank of Ukraine for increasing hryvnia internal value contributed to growth of value of resources *on the interbank loan market* mostly in its hryvnia segment. And if during the first six months the interbank loan value had a divergent dynamics, since July it was constantly growing and reached its peak, 23.0% per annum, in December. The average weighted interest rate on new loans granted to resident banks in 2014 increased almost 2.7 times and reached 10.8% per annum compared with the previous year. Interest rates increased both on loans in domestic currency – to 13.1% per annum (from 4.9% per annum in 2013) and in foreign currency – to 4.9% per annum (from 2.5% per annum). Also in 2014 the average weighted interest rate on new deposits received from resident banks grew by 1.3 percentage point to 4.1% per annum, including in domestic currency – to 6.3% per annum (compared with 5.2% per annum in the previous year).

Figure 11. **Weighted Average Interest Rates under Loans Granted and Deposits Received in the Interbank Market**



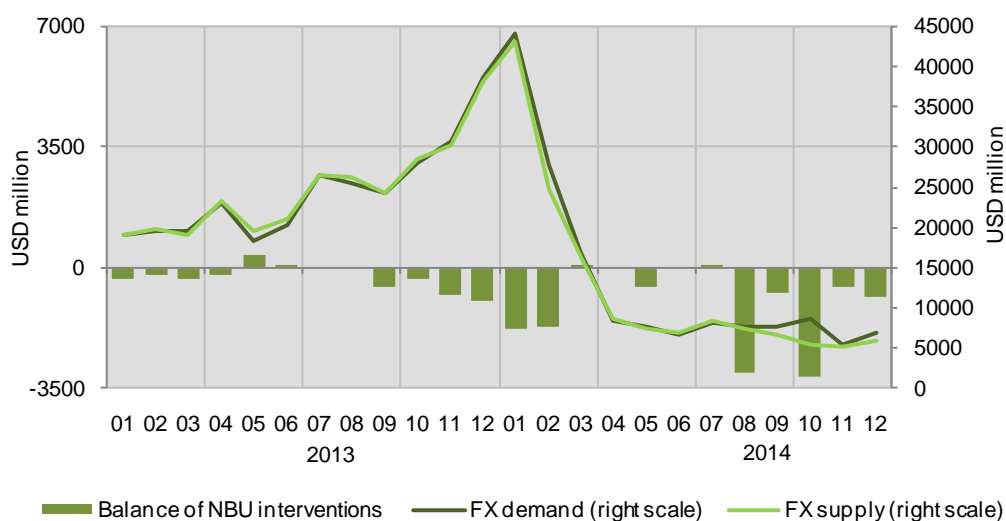
Foreign exchange market

The dynamics of Ukrainian interbank foreign exchange market indicators (hereinafter - foreign exchange market) in 2014 was influenced by the complicated political situation in the country and escalation of military conflict in the east of the country, which traditionally accounted for 20% of domestic export. As a result, unfavorable macroeconomic trends emerged, market expectations markedly deteriorated along with a simultaneous increase in the demand on the Ukrainian internal market for foreign exchange, increase in its deficit and excessive volatility of the hryvnia exchange rate.

So, in 2014, the net foreign exchange outflow to nonresidents was observed – USD 125.8 million (in equivalent), which was for the first time since 2009 (in 2013 the amount of net foreign exchange inflows made USD 9.4 billion).

On the whole, in 2014, the net demand for noncash foreign exchange made almost USD 10 billion (in equivalent), while in 2013 there was a net supply of non-cash foreign exchange, which made USD 1.6 billion.

Figure 12. Some indicators of Noncash Segment of FX Market



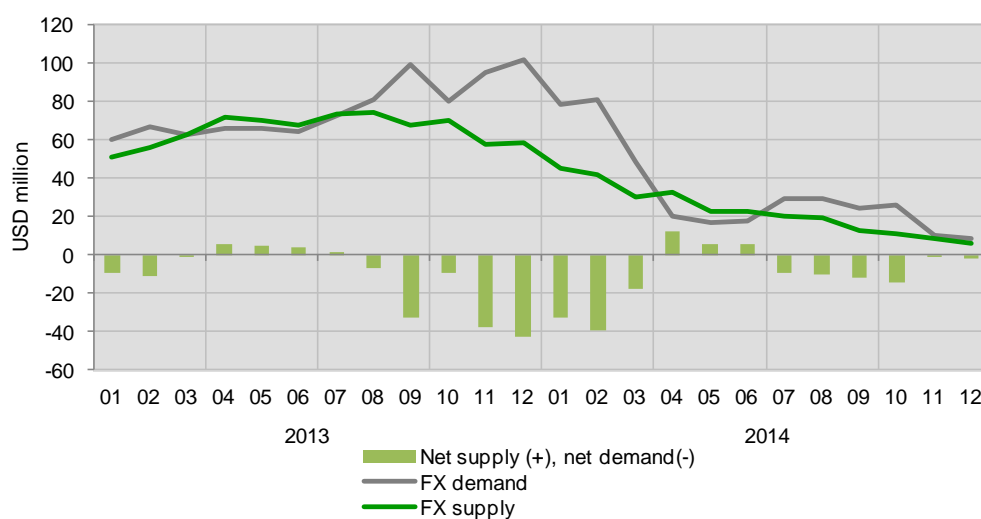
As in previous years, in 2014, the majority of purchase and sale FX transactions were cashless. In such a case, the share of non-cash foreign exchange transactions within the total amount of transactions on the foreign exchange market increased by 1.4 percentage point to 95.7% compared with 2013.

The share of USD transactions in the non-cash segment of the foreign exchange market increased by 3.0 percentage points and reached 80.6% compared with 2013. Instead, the share of EUR transactions decreased by 1.3 percentage points to 13.4% and RUR transactions - by 1.8 percentage point to 4.3%.

Net households demand for foreign exchange in a cash segment of the foreign exchange market made USD 2.4 billion, as compared with 2013 it slightly decreased (USD 2.9 billion).

By cash foreign exchange transactions, the share of EUR transactions increased by 2.0 percentage points to 14.9%, transactions with other currencies increased by 1.0 percentage point to 2.3%. Respectively, the share of USD transactions decreased by 1.7 percentage point to 72.0% and of transactions with Russian ruble decreased by 1.3 percentage point to 10.9%.

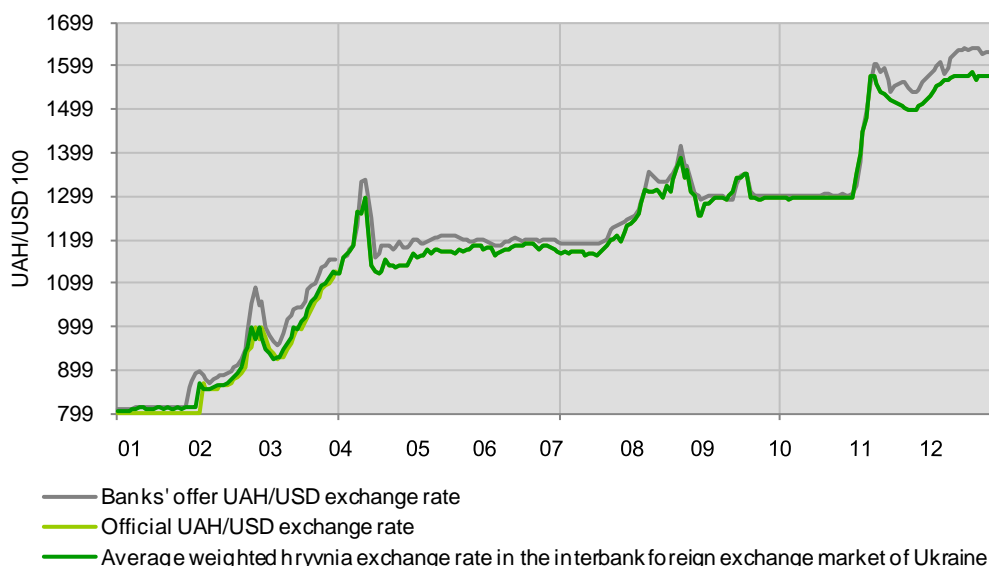
Figure 13. **FX Cash Transactions** (average daily)



Hryvnia official exchange rate dynamics

In 2014, hryvnia devaluated against USD by 97.3%. The dynamics of the exchange rate of hryvnia against other world currencies reflected the international market trends, where the euro/dollar fluctuations were observed. In 2014, euro weakened against US dollar. In this regard, hryvnia devaluated against euro by 74.2% this year.

Figure 14. UAH/USD exchange rate dynamics in 2014



Stock market

In 2014, the stock market of Ukraine was characterized by rapid growth of transactions carried out on its stock exchange segment. The intensification of stock trading was stimulated, among other things, by the depository reform conducted in late 2013, according to which all settlements in transactions with domestic sovereign bonds and municipal bonds began to be carried out through PJSC “Settlement Center for Servicing Financial Market Agreements”. In this relation, such over-the-counter operations were quite problematic. As a result, in 2014, the volume of exchange-traded contracts with securities in the organized market increased by 35.8% in comparison to the previous year and amounted to UAH 629.4 billion.

In the structure of the operations of the bidding process organizers there prevailed trade operations with government bonds of Ukraine, whose share increased to 87.9% of

Table 5. The structure of the operations of bidding process organizers by types of securities

Indicators:	share, %				
	2010	2011	2012	2013	2014
Shares	33.3	29.1	8.2	9.6	4.2
Government bonds	46.4	42.1	67.8	74.0	87.9
Bonds of enterprises	5.1	9.1	10.0	10.4	5.4
Municipal bonds	0.1	0.2	2.4	0.2	0.1
Derivatives	2.8	10.1	9.4	4.5	1.5
Other	12.3	9.4	2.2	1.3	0.9

the total securities turnover in the stock exchange segment of the stock market in 2014.

In 2014, there operated 10 bidding process organizers in the exchange stock market. At that, 94.7% of exchange-traded contracts (agreements) with securities focused on two securities exchanges: “Perspektyva” (78.8%) and “PFTS” (15.9%).

Government Securities Market

In 2014, the Ministry of Finance of Ukraine placed sovereign government bonds *in the primary market* in the following amounts: in the national currency – in the amount of UAH 218.05 billion with an average weighted yield of 13.44% per annum, in US dollars - USD 0.79 billion with an average weighted yield of 5.80% per annum and in Euro - EUR 0.04 billion with an average yield of 7.50% per annum.

Some of them were issued to increase the authorized capital, including:

– Naftogaz NJSC – in the total amount of UAH 96.6 billion with yield of 13.50% per annum⁷;

– Oschadbank PJSC in the total amount of UAH 11.6 billion with yield of 6.00% per annum⁸;

– State Export–Import Bank of Ukraine PJSC in the total amount of UAH 5.0 billion with yield of 9.50% per annum⁹.

In addition, in 2014, the Ministry of Finance of Ukraine issued T-bills worth UAH 6.9 billion with yield of 9.50 % per annum to refund the budgetary past-due VAT amounts¹⁰.

Also, during the reporting period, there were issued domestic sovereign bonds to provide the loan to the Deposit Guarantee Fund in the total amount of UAH 10.1 billion with the average weighted yield of 12.50% per annum¹¹.

In 2014, there were issued domestic sovereign bonds in the total amount of UAH 20.7 billion with an average weighted yield of 14.25% per annum for the purposes of rescheduling the debt of the Ministry of Finance of Ukraine before the National Bank of Ukraine in relation with payments (payment of principal) under the Government tranche, as settlement with the International Monetary Fund within the “Stand-By” Program.

⁷ Resolutions of the Cabinet of Ministers of Ukraine No. 40 of 12 February 2014, No. 151 of 29 May 2014 and No. 302 of 4 August 2014 “On the increase of the authorized capital of the National Joint-Stock Company “Naftogaz of Ukraine”.

⁸ Resolution of the Cabinet of Ministers of Ukraine No. 633 of 19 November 2014 “On the increase of the authorized capital of the Public Joint-Stock Company “State Savings Bank of Ukraine” and on amendments to its Charter”.

⁹ Resolution of the Cabinet of Ministers of Ukraine No. 713 of 29 December 2014 “On the increase of the authorized capital of the Public Joint-Stock Company “State Export-Import Bank of Ukraine” and on amendments to its Charter”.

¹⁰ Resolution of the Cabinet of Ministers of Ukraine No. 139 of 21 May 2014 “On the issue of domestic sovereign bonds to refund the budgetary past-due VAT amounts”.

¹¹ Resolution of the Cabinet of Ministers of Ukraine No. 456 of 17 September 2014 “On provision of loan to the Deposit Guarantee Fund”.

In 2014, the volume of government securities sale-and-purchase operations *in the secondary market* amounted to UAH 539.3 billion, of which UAH 482.4 billion – on the stock market and UAH 56.9 billion- over the counter.

In 2014, there remained the tendency of recent years to increase the total volume of domestic sovereign bonds in circulation, as a result of the rapid growth of the volume of government bonds owned by the National Bank of Ukraine.

During the reporting period, the volume of domestic sovereign bonds in circulation increased by UAH 205.3 billion and as of 1 January 2015 reached UAH 457.7 billion (in 2013 – UAH 252.4 billion). The volume of domestic sovereign bonds owned by the National Bank of Ukraine increased by UAH 171.1 billion or by 116.3% – to UAH 318.1 billion at face value in one year. The volume of bank-owned domestic sovereign bonds increased by UAH 12.4 billion or by 15.3% and amounted to UAH 93.4 billion as of 1 January 2015.

Payment cards market

During 2014, there was observed an increase in the number of payment cards and in the volume of cashless payments, despite the challenges the Ukrainian payment system experienced.

Payment infrastructure

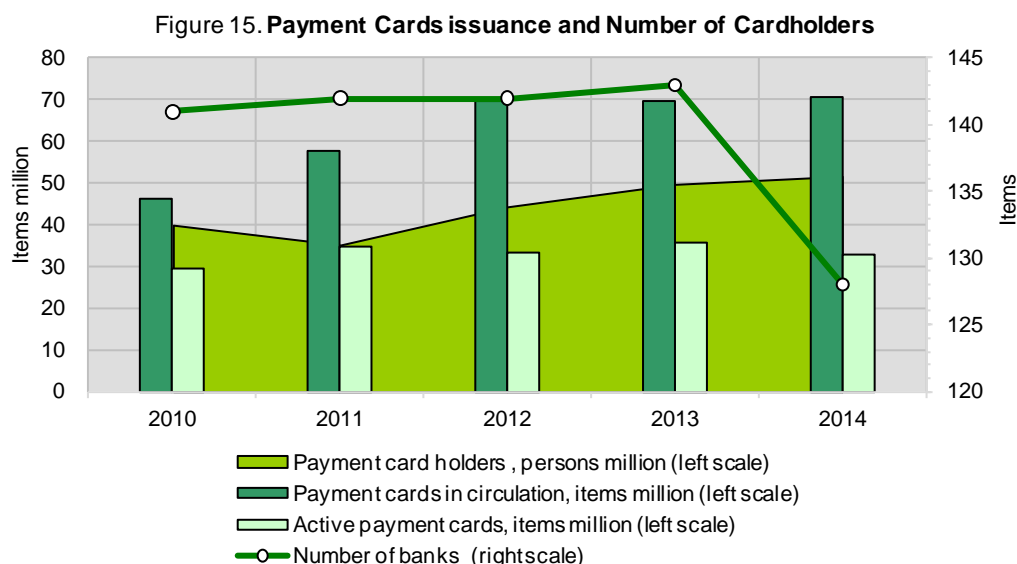
As of 1 January 2015, the number of member banks of card payment systems amounted to 128 banks (78.5% of the total volume), having serviced over 51 million bank¹² clients.

In 2014 compared with 2013, the number of ATMs servicing cardholders fell by 3 754 items or by 9.3% – to 36 596 items, the number of payment terminals – by 17 412 items, or by 7.9% – to 203 810 items, of which 178 875 items were point-of-sale (decreased by 7.0%) and 24 935 banking ones (13.7% reduction).

The number of trade and service enterprises with payment terminals increased in 2014 by 1 202 items, or by 1.0% and amounted to 123 505 items.

The total number of payment cards, the validity of which had not expired, amounted to 70.6 million pieces as of 1 January 2015. The number of payment cards, wherewith at least one transaction was made in the last quarter of 2014 decreased by 7.2% to 33.1 million pieces.

¹² The overall amount of the clients according to the information provided by the banks of Ukraine (one person may be a client at several banks).



The number, volume and structure of transactions

In 2014, as compared to the previous year, the number of transactions with the use of the payment cards, issued by Ukrainian banks, increased by 17.4% to 1.6 billion pieces.

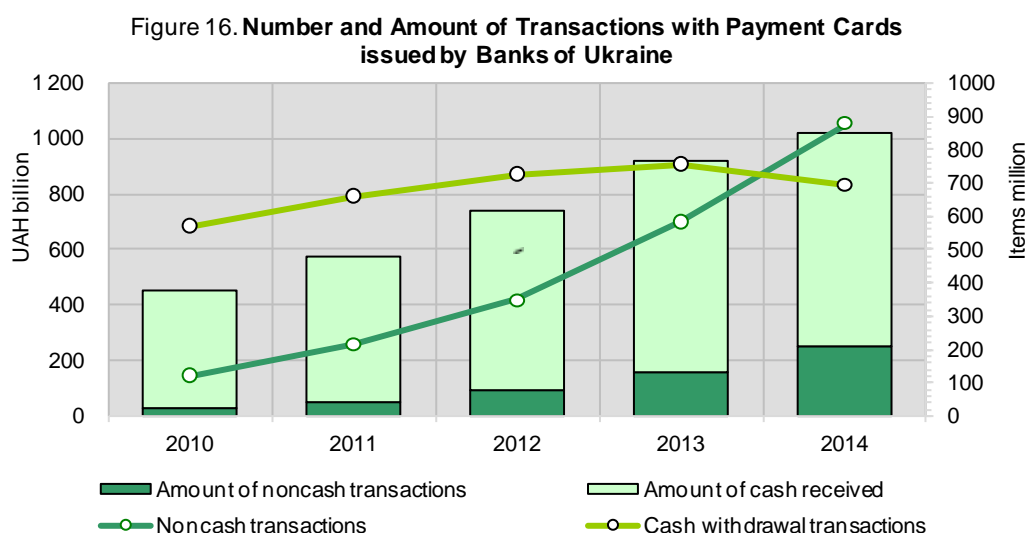
The vast majority of transactions were conducted by the holders of the payment cards issued by Ukrainian banks within the issuing bank's own network - namely 71.1%; 26.9% – within the network of other resident banks, and only 2.0% of transactions abroad.

The volume of the payment card transactions increased by 11.2% and amounted to over UAH 1.0 billion. The number of transactions with the use of payment cards with debit function increased by 11.7%, and with the credit function – by 7.8%.

Cashless payments

During 2014, there remained a positive trend of the increase in cashless payments. Thus, their number increased by over 295 million transactions or by 50.6% (last year – by 67.9%) – to 879 million transactions, and their share - to 55.9% versus 43.6% in 2013. In comparison to 2013, the volume of cashless payments increased by over UAH 96 billion and amounted to UAH 255 billion (25.0% of the total amount of payment card transactions).

The number of cash withdrawal transactions in 2014 decreased by almost 62 million transactions, or by 8.2% - to 693 million transactions, and their share – to 44.1% compared to 56.4% in 2013. The volume of cash withdrawal transactions increased in comparison with last year by almost UAH 7 billion, or by 0.9% and amounted to about UAH 764 billion (75.0% of the overall amount of payment card transaction).



As of 1 January 2015, NSMEP participants were 61 banks (including the National Bank of Ukraine), 19 non-banking institutions, including State Tax Service of Ukraine and USEP "Ukrposhta", and the Deposit Guarantee Fund, which were 9 institutions more than in 2013. During 2014, 15 banks concluded new NSMEP adhesion contracts, another 7 existing participating banks concluded additional contracts to work with improved NSMEP based on open international standards, 15 banking institutions withdrew from participation, including through the termination of their operations in the banking market.

Total number of issued NSMEP payment cards amounted to nearly 9 million pieces as of 1 January 2015. The total number of NSMEP ATMs and payment terminals amounts to about 30 thousand units.

During the year, NSMEP cards were used in about 14 million transactions for the amount of UAH 18 billion.

Money transfer system

Money transfer systems created by residents

As of 1 January 2015, the National Bank of Ukraine entered 26 money transfer systems created by residents into the Register of payment and settlement systems, their participants and payment services operators.

Among them 20 systems were launched by the Ukrainian banks including three international systems: "AVERS" (Finance and Credit Bank JSC – 92 participants, including 20 – non-residents), "PrivatMoney" (CB PRIVATBANK PJSC – 25 participants, including 24 – non-residents), "Welsend" (Ukrgaz bank JSC– 21 participants, including 3 – non-residents); four – domestic systems ("Aval-Express" (Raiffeisen Bank Aval JSC – 7 resident participants), "SOFT" (Ukrsotsbank PJSC),

“FLASHPAY” (BANK FAMILNYI PJSC) and “The Money” (CB Financial Initiative PJSC); 13 – intrabank systems (11 already existing, and the other two notified the National Bank on their intention to start their activity).

In 2014, with the use of international and domestic money transfer systems created by banks, cross-border transfers were received for the amount of USD 295.9 million (equivalent); USD 81.6 million (equivalent) were transferred outside the territory of Ukraine; within the territory of Ukraine there were made transfers for the amount of UAH 7 642.7 million.

Cross-border transfers were conducted in the following ways:

- through non-resident participants of international payment systems “AVERS”, “PrivatMoney” and “Welsend”;
- through cooperation of payment systems “AVERS” and “SOFT” with the systems created by non-residents;
- through non-resident banks serving as corresponding payment organizations of domestic payment systems.

During 2014, with the use of 11 intrabank money transfer systems providing services in Ukraine, there were processed over a million transfers totaling to UAH 9 336.7 million.

Non-bank institutions of Ukraine created 6 money transfer systems: “Poshtovyi perekaz” (Post transfer) (USEP “Ukrposhta”), “Finansovyi svit” (Financial world) (Ukrainska platizhna systema LLC), “24NONSTOP” (IT Finance LLC), “GlobalMoney” (GlobalMoney LLC), “InterPayService” (Zaporizhzhviazokservis PJSC) and “OMP” (FK OMP-2013 LLC).

During 2014, with the use of money transfer systems, created by non-bank institutions, there were effected transfers within the territory of Ukraine in the amount of UAH 32 870.3 million. In addition to internal transfers, under Postal Payment services Agreement of the Universal Postal Union and agreements with postal services in other countries, “Poshtovyi perekaz” (USEP “Ukrposhta”) payment system carried out cross-border transfers: USD 64 million were transferred from Ukraine and – USD 143 million were transferred in Ukraine.

Money transfer systems created by non-residents

In 2014, in Ukraine, there operated over 20 money transfer systems, created by non-residents, namely:

- 9 money transfer systems of the Russian Federation (“Golden Crown-Money Transfer”, “Unistream”, “Blits”, “CONTACT”, “LEADER International Payment System”, “Anelik”, “BLIZKO”, “Interexpress”, “Migom”);

- 3 USA resident systems (“Western Union”, “MoneyGram”, “RIA Financial Services”);
- 2 Azerbaijan resident systems (“HAZRI”, “Caspian Money Transfer”);
- 2 UK resident systems (“Coinstar Money Transfer”, “Xpress Money”);
- Georgia resident system (“IntelExpress”), Spain resident system (“MONEY EXCHANGE”), Kazakhstan resident system (“Faster”) and Canada resident system (“MEEEST”).

In 2014, through money transfer systems, created by non-residents, there were transferred USD 3 445.9 million to Ukraine, and USD 498.6 million were transferred abroad. In 2014, transfers within Ukraine totaled UAH 249.2 million. The average amount of a transfer decreased by USD 40 in 2014 in comparison to the previous year and amounted to USD 396 (equivalent).

In 2014, the largest amounts of money were transferred through the following international money transfer systems: “Western Union” (33%), “Golden Crown” (31%), “MoneyGram” (10%), “Unistream” (10%) and “CONTACT” (6%). Cash was received in Ukraine mainly from the Russian Federation (55.42%), the USA (9.22%), Italy (5.65%), Israel (2.54%) and Spain (2.11%).

In 2014, the intrabank, domestic and international money transfer systems, created by both residents and non-residents, operating in Ukraine reported the following amounts transferred:

- within Ukraine: UAH 50 099.3 million;
- into Ukraine: USD 3 884.9 million (equivalent);
- outside Ukraine: USD 644.6 million (equivalent).

Ukraine remains the recipient country of cross-border transfers: the amount of funds received in Ukraine through money transfer systems is seven times more than the amount sent abroad.

3. FISCAL SECTOR

In 2014, fiscal policy remained moderately strict. Consolidated Budget of Ukraine revenues, as compared with 2013, were up by 3% and made UAH 456.1 billion. Incomings from main budget generating taxes had divergent dynamics. In particular, incomings from personal income tax grew by 4.2% and the VAT – by 8.4%, and from corporate income and international trade tax declined by 26.9% and 5.5% respectively.

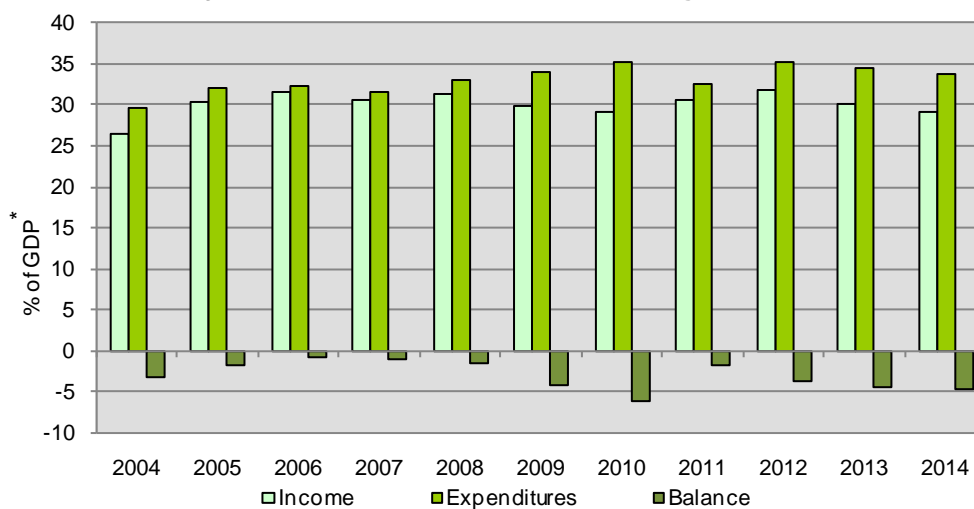
Consolidated budget of Ukraine expenditures (including lending less redemption) made almost UAH 528 billion and grew by 4.3% as compared with 2013. First of all, it was brought about due to growth of expenditures for defense and debt servicing. At the same time, social oriented expenditures such as salaries and social security declined. Capital expenditure also fell by 31.2%.

Expenditure growth rate exceeding those of income at the end of 2014 brought about an increase in the deficit of Consolidated Budget of Ukraine to UAH 72 billion (UAH 63.6 billion in 2013). Its financing was made at the expense of debt resources. Particularly, internal borrowings made almost UAH 230 billion, and external – UAH 95 billion.

The Law of Ukraine “On the State Budget of Ukraine for 2014” provided for issuance of domestic sovereign bonds in total amount of UAH 109.10 billion (in 2013 – UAH 107.68 billion).

In 2014, 226 auctions on domestic sovereign bonds placement were held, 113 of which were completed. According to their results, in 2014 the State Budget of

Figure 17. Performance of Consolidated Budget of Ukraine



*GDP: 2004 -2009 - SNA-1993, 2010-2014 - SNA-2008,

Ukraine received: UAH 67.12 billion in domestic currency and USD 0.79 billion and EUR 0.04 billion in foreign exchange.

In 2014, the Ministry of Finance met all its obligations under different types of government bonds for the total amount of UAH 97.23 billion, including repayment of the nominal value in the amount of UAH 65.30 billion, payment of the coupon yield in the amount of UAH 31.96 billion.

On an annual basis the public and publicly guaranteed debt increased by 88.2% and reached UAH 1 100.8 billion. Its main growth factor was the fall in the hryvnia exchange rate, including debt foreign exchange component (during the year it was fluctuating at about 62%).

During the year, public debt increased to UAH 947 billion (UAH 480.2 billion at the 2013 year end), primarily, due to growth of external public debt up to UAH 486 billion. Domestic component of the public debt increased by 79.4% due to widening deficit of the general government sector. In 2014, affected by the exchange rate, the debt guaranteed by the state increased by 47% and made UAH 153.8 billion.

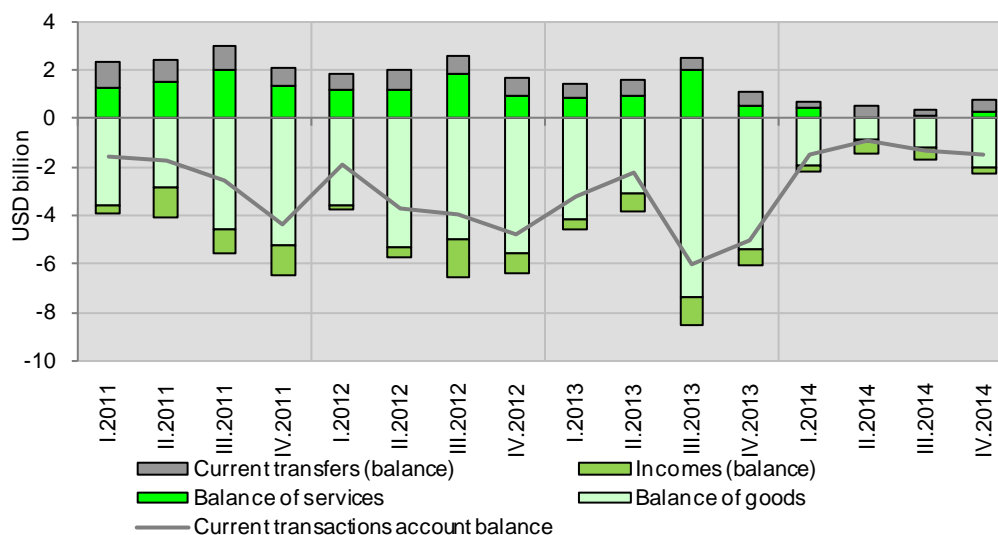
4. EXTERNAL SECTOR

Balance of Payments

Current Account

In 2014, deficit of the current account decreased to USD 5.3 billion or 4% of GDP (compared with USD 16.5 billion or 9% of GDP in 2013).

Figure 18. Current transactions account



Exports of goods. Merchandise exports fell by 15.0% in 2014 – to USD 55.3 billion due to interruption in operation of production facilities and destruction of transport infrastructure in eastern Ukraine, lower world commodity prices and deteriorated trade relations with Russia.

Exports of all commodity groups declined, in particular: machinery - by 30.6%, with a significant part of such decline falling on reduced deliveries of railway locomotives (almost 3 times), mainly to Russia; metallurgical products – by 13.2%, both due to a decrease of export prices for ferrous metals (on average by 9.6%) and due to the output slump in the armed conflict area; *chemical exports* – by 26.9%, due to a drop in imports of fertilizers (by 40.7%) and inorganic chemicals (by 32.5%). Exports of foods decreased by 2.2%, in particular exports to Russia showed a twofold slump due to the sanctions against Ukrainian producers. Liberalization of access for Ukrainian goods to the EU markets and record harvest helped to increase grain exports by 2.7% (in physical volume – by 20.3%) and oils and fats – by 9.0%.

Imports of goods. Merchandise imports decreased by 27.8% to USD 61.3 billion due to decline of the real effective exchange rate of hryvnia (by 19.2%) and reduction of domestic demand: retail trade turnover decreased by 8.6% and the industrial production decreased by 10.1%. The supply of goods from Russia decreased the most (by 45.4%), primarily due to the gas import decrease by 50.6%. The share of imports from Russia

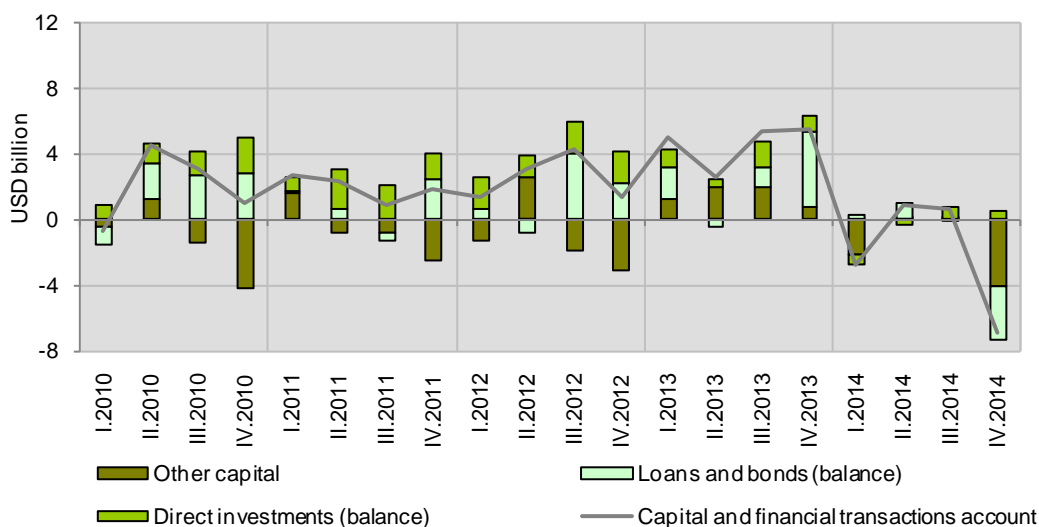
decreased to 20.7% from 27.5% in 2013, while the share of imports from the EU increased to 34.3% from 32.0% in 2013. Energy imports reduced by 28.2% due to almost halved supply of *natural gas* both from Russia and from Europe and 4.3 times decrease of oil imports following the shutdowns of all oil refineries. Non-energy imports of all commodity groups dropped by 27.7%, namely: machinery imports – by 38.2%; chemical products – by 20.3%; foods – by 26.0%.

Revenues (balance). Revenues deficit reduced to USD 1.5 billion (compared with USD 3 billion in 2013) due to lower payments of dividends on foreign direct investments (by 66.6%). Transfers surplus decreased to USD 1.5 billion from USD 2.1 billion in 2013 due to the reduction of private money transfers to Ukraine by 23.2%.

Financial account

The capital account and financial operations account deficit in 2014 was USD 8.0 billion (in 2013, the surplus amounted to USD 18.5 billion). The main contributor to the current deficit was the deterioration of investment environment caused by the armed conflict in the eastern Ukraine and a number of accumulated macroeconomic imbalances. This limited the attraction by the private sector both the investment and credit resources to refinance current payments on the previous loans.

Figure 19. **Capital and financial transactions account**



Loans and bonds of the public and private sector. Public sector obtained loans and macro-financial assistance from the EU (EUR 1.6 billion), the World Bank (USD 1.3 billion), Canada (USD 0.2 billion) and Japan (USD 0.1 billion) and placed Eurobonds secured by the USA government for the amount of USD 1 billion.

At the same time, the deficit of loans and bonds in the private sector was USD 5.5 billion (the balance was positive – USD 2.6 billion in 2013). Rollover rate of private sector external liabilities was 86% primarily due to low rollover rate of the real sector – 64%.

Direct investments. Net inflow of foreign direct investment made USD 410 million. Net investment outflow was registered in January – May, while in June – December net inflow made USD 1.5 billion and was mainly channeled in the real sector.

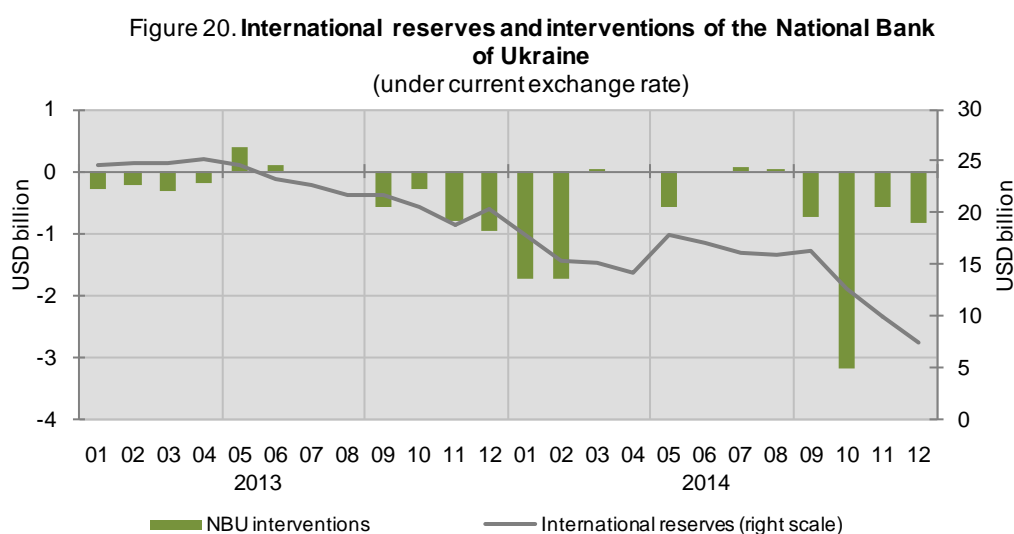
Foreign exchange cash outside banks. The increase in foreign exchange holdings outside banks was almost the same as in the previous year and made USD 2.7 billion. The highest withdrawals of foreign currency from banks were registered in the first quarter (USD 2.6 billion) due to the high devaluation expectations.

The deficit in the consolidated balance of payments of USD 13.3 billion was financed mostly from reserve assets (USD 12.4 billion).

International reserves

International (gold and FX) reserves of Ukraine (hereinafter – international reserves) as of 1 January 2015 made USD 7.5 billion, having decreased by USD 12.9 billion or by 63.2% in a year.

Reduction in the amount of the international reserves through the sale by the NBU of foreign exchange in the interbank FX market of Ukraine for the amount equal to USD 10.1 billion, redemption payments by the Government of Ukraine and public debt servicing in foreign currency for the amount equal to USD 6.6 billion,



including repayment of liabilities to the IMF for the amount equal to USD 3.8 billion and payments of funds previously reserved for the NAftogaz in the amount of USD 3.1 billion.

In 2014, the main international reserves replenishment sources were inflows on the Ukrainian Government accounts from international organizations in the amount equivalent to USD 5.5 billion, receiving funds from the IMF under 2014 Stand-by

Arrangement program in the total amount equivalent to USD 4.6 billion and FX purchase in the interbank FX market of Ukraine in the amount of USD 1.0 billion.

External debt

As of the end of 2014, gross external debt of Ukraine made USD 126.3 billion, having reduced since the beginning of the year by USD 15.8 billion.

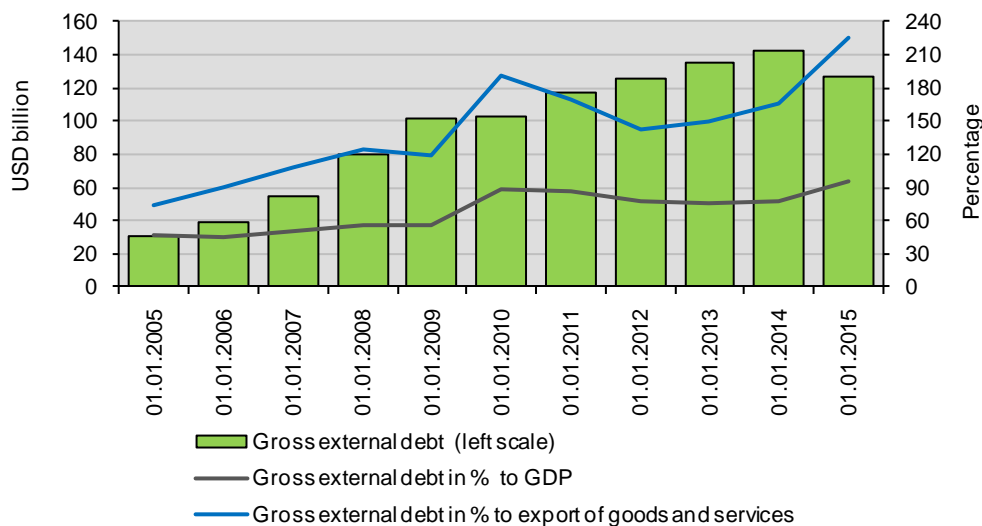
The main driver of such reduction in the reporting period was the decrease of private sector external liabilities by USD 19.1 billion, while the public debt increased at the cost of attracting borrowings from international financial organizations by the Government. Relative to GDP, the debt grew from 75.4% to 95.1% of GDP in a year.

The external liabilities of the general government (GGS) and monetary authorities sectors (MAS) in 2014 increased to USD 35.1 billion. The GGS and MAS debt to GDP ratio grew from 16.8% to 26.4%.

Ukraine's banking sector external debt made USD 18.7 billion (14.1% of GDP) at 2014 year end. The debt of banks decreased by USD 3.8 billion (by 16.9%) in 2014.

External debt of other economic sectors (including intercompany lending debt) decreased by USD 15.3 billion to USD 72.5 billion as a result of decrease in liabilities under long-term loans (by USD 7.0 billion) and bonds (by USD 1.6 billion) and payables under external trade transactions (by USD 10 billion).

Figure 21. Dynamics of gross external debt of Ukraine



Key challenges for the Activities of the National Bank of Ukraine

Aggravating public unrest in December 2013 - February 2014 led to considerable capital outflow and increase of demand for foreign exchange in both segments of the foreign exchange market. The attempt to hold the exchange rate during first two months of 2014 cost USD 3.46 billion of international reserves, and that was among the drivers of fixed exchange rate policy abolishment.

With effect from Q2 2014, other systemic risks in Ukraine were gradually increasing, in particular:

- worsening of relations with Russia, which resulted in goods turnover decrease both between Ukraine and Russian Federation (its share within the total exports fell from 23.2% to 17.7%) and with the other countries of Customs Union of Eurasian Economic Community. Open access to the EU markets and improvement of competitiveness rankings due to the REER decrease allowed to offset such worsening only partially - exports from Ukraine fell by 15% in 2014;*
- limited access to capital markets, which showed itself by rollover reduction of real sector (from 106% to 62%), that negatively affected the borrowers' financial condition and deepened the deficit of the BoP financial account ;*
- considerable quasi-fiscal deficit¹³ and fiscal dominance shown through the significant NBU transfers to the State budget of Ukraine and domestic debt monetizing (domestic sovereign bonds share in the NBU portfolio increased by UAH 171 billion or increased from 58.3% to 69.5% of domestic sovereign bonds in circulation) and resulting in further inflationary processes onset and limiting the NBU capacities for supporting banks;*
- increase of foreign exchange loans service costs due to national currency sharp devaluation by 49.3% in 2014, on background of worsened financial standing of enterprises and households that undermined their ability to service debt;*
- NPLs share increase - in 2014, NPL level increased by 6.1 percentage points and reached 19%. It resulted in the necessity of creating large provisions (UAH 103.3 billion), and, consequently, the growth of banking system losses (UAH 53 billion in 2014);*
- banks resource base shortening due to considerable household deposits outflow driven by both objective (real household income shortening) and subjective (households expectations regarding: further financial and geopolitical uncertainty within the state; imposing restrictions on deposits withdrawal; existence of alternative ways of saving etc.) factors. Non-financial corporate deposits decreased*

¹³ Naftogaz, the DGF, banks recapitalization.

due to business and external economic entities slowdowns. In reporting year, banks lost one third of deposit portfolio;

- resource base shortening and risks increase negatively affected the bank lending (compared with the previous year, in 2014 the amount of new loans granted in national currency fell by 13%, and in foreign exchange - ¹⁴ by 46%);

- loss of solvency by certain banks dictated the necessity to introduce provisional administration and the liquidation of 33 banks (10.1% of banking system total assets as of the beginning of 2014);

- formation of significant negative result of banking activity - losses made almost UAH 53 billion and were formed, primarily, at the cost of increased loan loss provisions. In general within system, the allocations to provisions increased 3.7 times compared with 2013, and their share in total spending increased from 16.7% to 39.3%. Around 40% of losses within the system were formed by banks declared insolvent and under provisional administration introduced by the Deposit Guarantee Fund.

¹⁴ Calculation was made in USD equivalent. Monthly data on new fx loans were used (less prolonged loans and loans under which the interest rate or loan currency was changed) and average monthly official UAH-to-USD rate).

ACTIVITIES OF THE NATIONAL BANK OF UKRAINE

1. MONETARY POLICY OF THE NATIONAL BANK OF UKRAINE

1.1. MONETARY POLICY IN 2014

Monetary policy in 2014 was exercised subject to swift changes in the economy of Ukraine, primarily, stipulated by materialized macroeconomic imbalances accumulated in the previous years due to the economic policy focused on consumption. Negative processes in the economy worsened as a result of growth of a social and political tension and loss of a part of economic potential due to economic and military aggression by the Russian Federation. Reduction in export was accompanied by outflow of capital and drop in the investment attractiveness of the country under the terms of growing uncertainty and high political and economic risks.

As a result, market expectations substantially worsened, demand for foreign currency increased and volatility of the Ukrainian hryvnia exchange rate grew. So, new demand for cashless foreign currency in 2014 was almost USD 10 billion in the equivalent (in 2013 new supply in the amount of USD 1.6 billion was recorded).

Devaluation of hryvnia, administrative increase in some prices and rates due to unpopular but needed economic reforms, as well as high devaluation expectations of the population and business could not help affecting the price dynamics. Under such terms, regardless of the fact that increase in monetary base in 2014 (8.5%) was within the volumes set forth in Monetary Policy Fundamentals (up to 28.0%), increase in consumer price index for 2014 (24.9%) exceeded the established target (19.0%).

It should also be mentioned that provisions of Monetary Policy Fundamentals for 2014 provided for a possible deviation of actual inflation index from the target in case of substantial impact on the price dynamics of structural moves in the economy, administrative regulation of prices and rates, as well as a number of internal and external shocks.

During the period of increased tension on the money and credit market, major efforts of the National Bank of Ukraine were focused on supporting liquidity of the banks in order to ensure their timely fulfillment of all liabilities against the customers. On the one hand, it ensured timely settlements in the economy, and on the other hand, it supported confidence in the banking system and development of favourable conditions for further return of the funds to bank accounts by depositors.

For this purpose the National Bank of Ukraine supported liquidity of the banks both through disbursement of new refinancing loans and review of the schedules for repayment of such loans. Reserve requirements were liberalized, including by allowing the banks to make provisions by way of full withdrawal of the funds from a separate

account. Furthermore, for the purpose of maintaining confidence in the banking system, the National Bank of Ukraine strongly supported the Household Deposit Guarantee Fund.

As a result, the average daily volume of correspondent accounts with the National Bank of Ukraine was UAH 29.2 billion in 2014 as compared with UAH 25.3 billion in 2013.

The monetary base increased by UAH 26.1 billion during a year – up to UAH 333.2 billion, and its dynamics during the year was mainly determined by growth of cash issued in circulation. In general, it increased by 16.4% or by UAH 42.9 billion in a year up to UAH 304.8 billion.

Criteria of the monetary policy in the medium term

The monetary policy within the coming years will be based on the need to facilitate gradual lowering of inflation rates targeted at 5% or less per year to be reached in the medium term (3 to 5 years) with a possible deviation ± 1 percentage point.

Quantitative criteria of efficiency and indicative target indicators of the program for cooperation with the IMF on net international provisions, net internal assets and monetary base will be considered operational benchmarks for the monetary policy.

1.2. ANTI-CRISIS REGULATION OF THE MONEY AND CREDIT MARKET

During 2014 a complicated economic situation kept pressing the money and credit market and required from the National Bank of Ukraine to show relevant flexibility and promptness in execution of the monetary policy and development of a set of measures for anti-crisis regulation.

During the period of the worst aggravation of the situation the National Bank of Ukraine applied special additional mechanisms to maintain liquidity of the banks with large deposit outflows. In general, by applying such mechanisms, credits for a total amount of UAH 32.6 billion were disbursed.

So, effective since 6 February 2014 the mechanism for prompt support of liquidity of the banks, affected with outflow of households' fixed-term deposits, was implemented by holding of early biddings to maintain liquidity of the banks for a period up to 360 days. 10 biddings were held in total. Indebtedness on such credits as of 1 January 2015 was UAH 1.8 billion. Interest rate on the aforementioned credits was

established as follows: since February 2014 at the level of triple discount rate, since April 2014 at the level of double discount rate, since June 2014 at the level of one and a half discount rate of the National Bank of Ukraine. Interest rate on such credits in September 2014 was 18.75% per annum as compared with 19.50% per annum in February 2014.

For the purpose of prompt response to negative trends of the market it was decided to apply a new refinancing instrument to maintain liquidity of the banks effective since 24 February 2014¹⁵. Effective since 26 February 2014 the Regulation on Disbursement of Loans to the Banks of Ukraine by the National Bank of Ukraine to Maintain their Liquidity was enacted. According to it, the banks having substantial reduction in deposits of legal entities and private individuals were provided with the loans for a period up to 360 days (invalidated since 31 May 2014). Over the course of 2014 the National Bank of Ukraine disbursed loans to the banks of Ukraine to maintain their liquidity for a total amount of UAH 23.0 billion, where UAH 5.7 billion was repaid in the accounting period; indebtedness as of 1 January 2015 was UAH 17.3 billion. Loans were disbursed to the banks under the following interests rates: since February 2014 at the level of triple discount rate, and since May 2014 at the level of double discount rate of the National Bank of Ukraine. Interest rate on such loans in May 2014 was 28.50% per annum as compared with 19.50% per annum in February 2014.

Given other risks which affected financial and banking market, the National Bank of Ukraine supported liquidity of the banks by disbursing stabilization loans. For this purpose a number of amendments were made to the Regulation on Disbursement of Stabilization Loans to the Banks of Ukraine¹⁶, which included expanding the list of collateral eligible for stabilization loans, amendments to the disbursement procedure, etc¹⁷. During 2014 the National Bank of Ukraine disbursed stabilization loans to the banks of Ukraine for a total of UAH 28.2 billion, where UAH 5.4 billion was repaid in the accounting period. Almost a third of the repaid indebtedness was refunded prematurely.

In addition, to maintain liquidity of the banks the National Bank of Ukraine cancelled the following limitations:

– a number of applications by the banks for maintenance of liquidity by receipt of overnight credits – effective since 21 February 2014;

¹⁵ Resolution of the Management Board of NBU No. 91 dated 24 February 2014.

¹⁶ Approved by the Resolution of the National Bank of Ukraine No. 327 dated 13 July 2010.

¹⁷ Resolutions of the National Bank of Ukraine No. 691 dated 30 October 2014 and No. 860 dated 25 December 2014.

– maximum volume of refinancing loans (excluding overnight) disbursed to a particular bank by the National Bank of Ukraine and the funds on direct repurchase agreements – 13 December 2013 to 1 March 2014 and 13 March 2014 to 1 May 2014.

Moreover, effective since 18 September 2014 the National Bank of Ukraine also increased possibility of banks' access to overnight loans and tender loans by disbursement of them to the banks which do not have any overdue indebtedness on the loans provided by the National Bank of Ukraine.

At the same time starting from March 2014 regular biddings on refinancing of the banks were held without announcement of the interest rate. Interest rate on the loans disbursed to the banks within the financial recovery programs was much higher in the accounting period than in 2013 (in December 2014 – 21.0% per annum as compared with 8.5% per annum in December 2013).

For the purpose of development of conditions for stable operation of the banks, timely fulfillment of their obligations against depositors, as well as provision of the banks with additional flexibility in liquidity management the National Bank of Ukraine changed the requirements to formation of reserve requirements by the banks in 2014:

– decreased the share of reserve requirements, which must be formed by the banks on a special account opened with the National Bank of Ukraine and gradually set the procedure for formation and keeping of required reserves by all banks on the correspondent account opened with the National Bank of Ukraine;

– decreased the share of minimum volume of required reserves which shall be ensured on daily basis as of the beginning of the transaction day on the correspondent account of the banks;

– depending on the term of raising funds, unified the standards for reserve requirements and instead of eight standards of reserve requirements it established only two standards;

– allowed the banks offsetting a share of cash balance at the cash desk of the bank in the national currency as the coverage of reserve requirements formed and kept on the correspondent account.

In order to maintain the confidence in the banking system, the National Bank of Ukraine supported liquidity of the Deposit Guarantee Fund through extending loans to DGF. At the same time, the Deposit Guarantee Fund's access to the loans of the National Bank of Ukraine was simplified and improved, including easement of eligibility requirements for collateral, extension of the list of collateral; a possibility of disbursement of the loans by opening a credit facility was provided for; the terms for disbursement of the loans were increased from one to three years.

For the purpose of strengthening stability of the money and credit as well as foreign exchange market the National Bank of Ukraine was forced to apply administrative and market corrective measures to the FX market of Ukraine in 2014. The term for applying of the following corrective instruments to the domestic FX market was prolonged: requirement to sell a part of FX proceeds and requirements to the terms of settlements under goods export and import operations.

In 2014 requirements to the terms of settlements under exports and imports of goods and compulsory sale of FX proceeds from abroad were implemented and permanently reviewed (including the amount of compulsory sale) by the National Bank of Ukraine according to the situation. In particular, effective since 3 December 2014¹⁸ the National Bank of Ukraine established the requirement to sell 75% of FX proceeds and a deadline of 90 days for settlements under exports and imports of goods.

The deadline of 90 days for completing settlements of residents under exports and imports of goods was introduced, mainly, to avoid inefficient outflow of capital outside Ukraine under the conditions of a tense situation in the money and credit and the FX markets of Ukraine and unauthorized use of foreign currency.

Requirement to sell FX proceeds in favor of foreign economic entities is intended for ensuring guaranteed supply of foreign currency in the interbank FX market of Ukraine.

Moreover, for the purpose of ensuring stability of the Ukrainian currency, protection of interests of depositors and other creditors of the banks according to the priority of supporting price stability in the country, facilitation of stability of the banking system of Ukraine, the National Bank of Ukraine issued a number of Resolutions in 2014 introducing a set of anti-crisis measures.

Such measures contributed to decrease of tension on the money and credit market which brought about gradual hindering of negative trends.

1.3. MARKET INSTRUMENTS FOR REGULATION OF MONEY AND CREDIT MARKET

Interest rate policy

Interest rate policy of the National Bank of Ukraine in 2014 was designed for increase in intrinsic value of hryvnia and facilitation of decrease in devaluation and inflation pressure.

For this purpose the National Bank of Ukraine increased its policy rate three times during 2014, which is a basic rate for the other interest rates of the National Bank of Ukraine. So, effective since 15 April 2014 it was increased from 6.5 to 9.5% per annum,

¹⁸ Resolution of the National Bank of Ukraine No. 758 dated 1 December 2014 (as amended).

effective since 17 July 2014 – up to 12.5% per annum, effective since 13 November 2014 – up to 14.0% per annum. Interest rates on standing refinancing instruments increased respectively. In particular, the interest rate on secured overnight refinancing loans was raised from 7.50 to 17.50% per annum.

Weighted average interest rates on tender credits and direct repurchase agreements grew up to 19.08 and 19.16% per annum in December 2014 as compared with 6.50 and 6.52% per annum in December 2013 respectively. While holding tenders, the interest rate biddings during which the banks independently offered interest rates were privileged.

In general, the weighted average rate on all refinancing instruments increased from 6.84% per annum in January up to 17.95% per annum in December 2014.

To improve efficiency of the overnight interest rates band, the National Bank of Ukraine following the upward movement of the policy rate increased the interest rate on certificates of deposit of the National Bank of Ukraine respectively. Thus, the interest rate on overnight certificates of deposit grew up to 7.50% per annum in December as compared with 2.00% per annum in January 2014.

Reserve requirements

For the purpose of more flexible management of banks' own liquidity the National Bank of Ukraine was changing requirements to provisioning and keeping required reserves by the banks over the course of the accounting year.

Since 24 February 2014 the share of required reserves the banks had to form and keep on a special account opened with the National Bank of Ukraine was decreased from 40% to 20% of the required reserves formed for a previous accounting period of provisioning. The share of required reserves which had to be kept by the banks as of the beginning of the transaction day on a correspondent account with the National Bank of Ukraine was changed twice during 2014: on 24 February 2014 it was decreased from 60 to 50% of the amount of required reserves formed for a previous accounting period of provisioning, and since 31 May 2014 – down to 40% of the amount of required reserves formed for a previous accounting period of provisioning.

Since 19 August 2014 the requirement for the banks to make provisions on a special account opened with the National Bank of Ukraine was cancelled and it was also established that the banks should make required provisions and keep them in full form and keep the whole volume of required reserves on correspondent accounts with the National Bank of Ukraine.

At the same time for the purpose of maintaining additional sources of liquidity and solvency support, the requirement to make provisions on a special account opened with the National Bank of Ukraine remained effective for the banks included in the

category of problems banks, as well as the banks which had indebtedness before the National Bank of Ukraine (under the loans disbursed for support of liquidity/stabilization loans under the financial recovery programs, credits disbursed for maintaining liquidity) and to which the National Bank of Ukraine applied the procedure of special mode of control by appointment of the relevant bank curator.

Furthermore, effective since 19 August 2014 the preferential procedure for formation of required reserves on the funds raised in Russian Rubles was cancelled, namely, a zero rate of provisioning, and the standard of required provisioning in the funds raised by the banks from non-resident banks, international and other non-resident organizations in Russian Rubles was established at the level of 5%.

In order to help simplify the procedure for making provisions and maintaining the required reserves by the banks, its harmonization with the standards of the European law, the National Bank of Ukraine has issued the Procedure for Forming the Required Reserves for Ukrainian Banks and Foreign Banks' Branches Operating in Ukraine, effective since 31 December 2014, which approved new principles and approaches regarding determination and formation of required reserves by the banks, namely:

- all banks of Ukraine shall make provisions and maintain required reserves on their correspondent accounts with the National Bank of Ukraine;

- to reduce the load on the banking system while performing compulsory payments to the budget at the beginning/end of the month and for the purpose of more predictable provisioning and maintaining the required reserves by the banks, the maintenance period has been established as commencing on the 11th day of each month and terminating on 10th day of the following month (inclusive), and the period of establishment of the reserve base shall be deemed to be the period preceding the maintenance period;

- reserve requirements have been unified according to the terms of borrowings: the reserve requirement for demand deposits of legal entities and individuals and on the current accounts in domestic and foreign currencies – 6.5%, the reserve requirement for term deposits of legal entities and individuals in domestic and foreign currency – 3.0%;

- for the purpose of mitigation of the risk of non-fulfillment of requirements to formation and keeping of required reserves on the correspondent account with the National Bank of Ukraine the banks are allowed offsetting cash balance on accounts 1500 “Correspondent accounts opened with other banks” and 1502 “Funds of the banks in settlements”, opened with Settlement Center for Servicing Agreements in Financial Markets PJSC in the amount of 100% to cover required reserves, cash balance at cash desk of the bank in domestic currency (balance sheet accounts 1001 “Banknotes and coins at bank's cash desk”, 1002 “Banknotes and coins at cash desk of bank's branches”,

1003 “Banknotes and coins at exchange points” and 1004 “Banknotes and coins at ATM”) – in the amount of 50%;

– the list of assets allowed to be offset to cover required reserves excludes domestic sovereign bonds (hereinafter referred to as the "DSB") nominated in foreign currency, and long-term DSB in domestic currency with the maturity (according to the terms of primary issue) over 3,600 days.

Arithmetic average balance of funds kept on the banks' accounts 1500 “Correspondent accounts opened with other banks” and 1502 “Funds of the banks in settlements”, opened with Settlement Center for Servicing Agreements in Financial Markets PJSC, were UAH 421.2 million in December 2014 as compared with UAH 398.8 million in December 2013. Arithmetic average volume of DSB allowed to be offset to cover required reserves was UAH 15.6 billion in December 2014 as compared with UAH 5.0 billion in December 2013.

Average calculated reserve requirement ratio for 2014 was 4.0%, having grown from 3.3% in January to 4.3% in December 2014 (for 2013 – 3.0%, having grown from 2.7% in January to 3.4% in December).

Regulatory volume of required reserves in 2014 increased from UAH 27.1 billion in January up to UAH 39.4 billion in December. The amount of funds of required reserves on a special account with the National Bank of Ukraine during 2014 fluctuated within UAH 0.2 billion to UAH 10.8 billion, and for average monthly balance of funds on the correspondent accounts of the banks – from UAH 23.4 billion to UAH 32.3 billion.

Over the course of 2014 interests in the amount of 30% of the policy rate of the National Bank of Ukraine were accrued and paid on the balance of funds of required reserves transferred by the banks to a special account with the National Bank of Ukraine subject to observance of the procedure for provisioning and keeping of required reserves by the bank.

Bank refinancing operations

Under the terms of a complicated economic and political situation in the country, deterioration of market expectations and sharp reduction in bank deposits, for the purpose of fostering stability of the banking system the National Bank of Ukraine actively executed operations to support liquidity of the banks by focusing its efforts on the most transparent and understandable standard instruments of bank refinancing.

In 2014 the balance (difference) between the scopes of loans disbursed by the

Table 6. Balance (difference) between the loans disbursed by the National Bank of Ukraine to the banks of Ukraine and the volumes of repaid credits previously disbursed to them in 2013 to 2014

(UAH million)¹⁹

Indicators	2014	For reference only: 2013
Total on all operations,	32 824.8	1 024.3
where:		
– on standing credit facility of overnight refinancing	–478.0	373.0
– on loans disbursed via tender	3 336.1	2 819.1
– on stabilization loans	24 731.9	–4 266.1
– on direct repo	–12 105.7	2 098.4
– on other short-term loans	17 340.5	–

National Bank of Ukraine and the volumes of repaid loans previously disbursed to them amounted to UAH 32.8 billion.

Deposit operations

As the money and credit market is segmented, the National Bank of Ukraine was actively executing operations on mobilization of the funds by means of placement of its certificates of deposit during 2014.

Over the course of 2014, 1 469 biddings were announced. On the basis of such biddings certificates of deposit were placed for a total amount of UAH 1 472.7 billion (UAH 270.4 billion in 2013). Nominal value of one certificate of deposit equaled UAH 1,000.00 thousand. Weighted average interest rate on certificates of deposit issued for circulation in 2014 was 5.68% per annum (2.05% per annum in 2013).

In 2014 certificates of deposit were prematurely repaid for a total of UAH 775.0 million as compared with UAH 6 million in 2013.

¹⁹ Subject to rounding to one decimal place.

Currency interventions

In 2014 the National Bank of Ukraine applied currency interventions among other instruments of regulating FX segment of the money and credit market by executing operations on sale of foreign currency. A share of regulator's participation on the interbank FX market of Ukraine was 3.5% of the total volume of operations as compared with 0.9% in 2013.

During the first six months of 2014 the National Bank of Ukraine sold USD 4.4 billion in the equivalent on the interbank FX market (where more than 51% was to support payments of National Joint Stock Company Naftogaz of Ukraine), and in the second half of 2014 it sold 2 times more, namely, USD 8.8 billion (where 75% was to support payments of National Joint Stock Company Naftogaz of Ukraine).

In view of aggravation of currency imbalances on the domestic market in H2 2014, to mitigate devaluation pressure on the Ukrainian Hryvnia the National Bank of Ukraine was forced to restore the practice of FX auctions and target interventions to support cash desks of the banks with foreign currency and satisfy needs of the banks' customers. Over USD 1.8 billion was used for the aforementioned purposes. Furthermore, the regulator actually took out the largest buyer of foreign currency National Joint Stock Company Naftogaz of Ukraine from the FX market by granting access to foreign currency for the company through targeted interventions.

During 2014 the regulator also carried out FX purchases to replenish the volume of international reserves (almost USD 1 billion in the equivalent).

In general, negative balance of FX interventions of the National Bank of Ukraine was almost USD 12.3 billion (in the equivalent) as compared with USD 3.1 billion in 2013.

Operations with securities in the open market

During 2014 the National Bank of Ukraine was actively supporting liquidity of the banks by means of execution of operations in the open market. The National Bank of Ukraine purchased securities of Ukraine at the nominal value for a total of UAH 181.90 billion and USD 0.094 billion. The National Bank of Ukraine did not sell Ukraine's securities from its portfolio in the accounting year.

Furthermore, the National Bank of Ukraine carried out operations on purchase and sale of state bonds of Ukraine through the mechanism of bilateral quoting. Nominal value of purchased securities amounted to UAH 1.03 billion, those sold – UAH 1.00 billion.

**Table 7. Securities owned by the National Bank of Ukraine
at nominal value as of 1 January 2015**

(currency of issue, million)

State securities				Private securities	
DSB		FSB		bonds of enterprises nominated in UAH, including:	
nominated in currency of issue, including:					
UAH	USD	USD	EUR	bonds of State Mortgage Institution	bonds of Ukravtodor
316 806.4	93.5	130.0	83.05	1 000.0	4 030.0

1.4. MANAGEMENT OF INTERNATIONAL RESERVES

The main goal of management of international reserves was to ensure optimal correlation of the levels of protection, liquidity and profitability which ensured fulfillment of the functions of the National Bank of Ukraine set forth in the effective Ukrainian law.

In the accounting year international reserves were managed in compliance with the Investment Declaration of International (foreign exchange and gold) Reserves of Ukraine for 2014.

The main components of international reserves were the foreign currency (87.9% as of 1 January 2015) and monetary gold (12.1%).

In 2014 international reserves were on the accounts of correspondent banks and in financial instruments with long-term credit rating no less than "A" level. Credit risk was controlled by imposing loan limits on counterparty banks. Optimum level of currency and interest risks was ensured by diversification of international reserves.

Over the course of management of international reserves the National Bank of Ukraine applied such key financial instruments as securities of non-residents with fixed profitability and short-term deposits at foreign banks.

All liabilities of counterparty banks against the National Bank of Ukraine on deposits and debt financial instruments were fulfilled in time and in full.

The National Bank of Ukraine received income in the amount of USD 212.7 million from management of international reserves for 2014.

Reformation of the banking system of Ukraine

Given a two-level structure of the banking system of Ukraine structural changes require implementation of complex reforms at two levels:

– at the level of the National Bank of Ukraine by strengthening its ability to create relevant monetary conditions for sustainable economic development and improvement of regulatory impact on development of stability of the country's banking system, growth of its credit and investment potential;

– at the level of the banks of Ukraine for the purpose of ensuring efficient growth of the banking sector on the basis of high trust and observance of the interests of the state, banks and consumers of financial services.

Complex reforms will be carried out along three key directions, which will ensure price stability, financial stability and development of the institutional ability of the National Bank of Ukraine in supervisory and regulatory functions, improvement of efficiency of its activities as the state institution.

The main assignments of the reform in terms of ensuring price stability are the following:

– development of the modern instruments and operating system of the monetary policy in accordance with the best practices of central banks;

– decline of inflation and its volatility as well as inflation expectations of economic agents;

– independent monetary policy which is based on a medium term forecast of inflation;

– improvement of the decision-making procedure on the monetary policy, including by means of improvement of the quality of macroeconomic analysis and forecasting at the National Bank of Ukraine;

– ensuring transparency and accountability of the activities of the National Bank of Ukraine according to the transparency standards of the central banks of other countries;

– development of cashless settlements and improvement of transparency of the banks payment operations;

– mitigation of currency risks and minimization of consequences of the changes in currency exchange rate for the economy of the country;

– creation of long-term resources in the domestic currency and development of financial markets.

The main assignments of reforming the banking system in terms of ensuring financial stability are the following:

- improvement of the level of banking system capitalization;*
- strengthening protection of creditors' rights and settlement of an issue regarding banks' assets of inappropriate quality;*
- mitigation of risks and growth of trust to the banking system;*
- improvement of the standards of activities and corporate governance of the banks on the basis of the best world experience;*
- protection of the rights of financial service consumers and improvement of financial literacy of the population.*

The following assignments shall be settled in terms of development of institutional ability of the National Bank of Ukraine:

- reforming financial market regulation system;*
- increase of efficiency of performing regulatory and supervisory function of the National Bank;*
- improvement of the organizational structure, simplification of internal processes and optimization of the work of the National Bank of Ukraine by implementation of advanced approaches to management of central banks' activities;*
- increase of transparency of financial operations and counteraction to use of the banking system for the purpose of laundering the proceeds of crime and terrorist financing;*
- improvement of the legislative and regulatory base of the banking system;*
- stimulation to application of the latest technologies in the banking system.*

2. REGULATORY AND SUPERVISORY ACTIVITIES

2.1. REGULATING THE ACTIVITIES OF THE BANKS OF UKRAINE

During 2014 the National Bank of Ukraine actively participated in implementation of the measures used as the basis of reformation program in the financial sector. This program was carried out in close cooperation with the International Monetary Fund, World Bank, European Union, EBRD and other international financial organizations and financial donors. The goal of such measures was to support stability and appropriate functioning of the domestic banking system, improvement of its ability to counteract existing challenges. The measures were implemented on the directions of capitalization of the banks, establishment of the banks important for the system, strengthening of corporate governance at the banks, saving their liquidity.

The National Bank of Ukraine together with the Ministry of Finance of Ukraine developed the criteria and terms of participation of the state in recapitalization of the banks the owners of which are not able or not willing to capitalize in a proper manner.

Early July 2014 the Verkhovna Rada of Ukraine enacted the Law of Ukraine "On Amendment of Some Legislative Acts of Ukraine on Preventing Negative Impact on Stability of the Banking System", which had been developed on the initiative of the National Bank of Ukraine and the Deposit Guarantee Fund. In particular, this Law provided for peculiarities of withdrawing of insolvent banks corresponding to the established requirements from the market with the participation of the state (represented by the Ministry of Finance of Ukraine or state bank).

The same Law also increased minimum amount of the authorized capital of newly incorporated banks up to UAH 500 million.

Within the framework of implementing provisions of the Law the National Bank of Ukraine approved the schedule for bringing the authorized capital of operating banks in compliance with the requirements of the law within the period of 10 years (before 11 July 2024)²⁰.

Furthermore, the standard value of the minimum amount of regulatory capital of the bank (N1) is increased UAH 120 million to UAH 500 million²¹. For the banks which commenced their activities before 11 July 2014 a stage-by-stage bringing of the regulatory capital to the established level is provided for a period of ten years.

²⁰ Resolution of the Management Board of the National Bank of Ukraine No. 464 dated 6 August 2014.

²¹ Amendments to the Instructions on the Procedure for Regulation of Banks' Activities in Ukraine made by the Resolution of the Management Board of NBU No. 723 dated 17 November 2014.

To strengthen financial capability of the banking system of Ukraine and improve the level of trust to it the Verkhovna Rada of Ukraine enacted the Law of Ukraine developed by the National Bank of Ukraine "On the Measures Designed for Facilitation of Capitalization and Restructuring of Banks" late December 2014. Among other things this Law enacted simplified procedure for capitalization and reorganization of the banks, and also established peculiarities of capitalization of the banks subject to participation of the state.

In 2014 the procedure for *identifying the systemically important banks* was implemented at the state level²². Criteria for identifying such banks are the size of the bank, degree of financial relationships and business activities.

Within the framework of implementation of the Law the National Bank of Ukraine approved the methodology for identifying the systemically important banks which activities impact stability of the banking system²³. According to the resolution such banks shall be identified on annual basis subject to application of a multi-factor model based on the criteria of importance for the system.

Methodological basis for identifying the systemically important banks were drafted using the recommendations of the Basel Committee on Banking Supervision regarding the principles of work with domestic systemically important banks, as well as relevant provisions of EU law.

On initiative of the National Bank of Ukraine the Verkhovna Rada of Ukraine made amendments to the Law of Ukraine "On Banks and Banking" in terms of establishment of peculiarities of *corporate governance at the banks*, which:

- improved requirements to organization of corporate governance at the banks;
- increased liability of the bank's management personnel, namely, council of the bank for the results of its activities;
- set the requirements to building adequate and efficient risk management and internal control systems.

Within the framework of this Law the National Bank of Ukraine with the participation of the representatives of the banking community developed and approved Regulations on Organization of Internal Control at the Banks of Ukraine²⁴, which set out minimum requirements to organization of internal control at the banks.

In addition to the aforementioned the National Bank of Ukraine also took all measures provided for in the Action Plan for 2014 developed jointly with the

²² The Law of Ukraine "On Amendment of Some Legislative Acts of Ukraine on Prevention from Negative Impact on Stability of the Banking System".

²³ Resolution of the Management Board of NBU No. 863 dated 25 December 2014 "On Approval of the Regulations on the Procedure for Establishment of Banks Important for the System".

²⁴ Resolution of the Management Board of NBU No. 867 dated 29 December 2014.

Government on *prevention and counteraction to legalization (laundering) of the proceeds of crime or terrorist financing*.

The National Bank of Ukraine actively participated in drafting the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Proceeds of Crime or Terrorist Financing and Funding the Proliferation of Weapons of Mass Destruction", which amended the law of Ukraine "On the National Bank of Ukraine", as well as the Law of Ukraine "On Banks and Banking". Within the framework of preparation to implementation of requirements of the aforesaid laws the National Bank of Ukraine commenced the work on drafting a new version of the regulations on financial monitoring by the banks.

Regulatory activity of the National Bank of Ukraine in 2014 was exercised in compliance with the Plan for Drafting Regulatory Acts of the National Bank of Ukraine for 2014²⁵, according to which development of 15 draft regulatory legal acts corresponding to the indications of a regulatory act were developed.

For the purpose of proper performing the regulatory activities of the National Bank of Ukraine, new regulatory acts were drafted and previously adopted ones were followed-up.

2.2. REGISTRATION AND LICENSING

In 2014 the National Bank of Ukraine approved no articles of association of the legal entities intending to carry out banking activities. In particular, on 16 September 2014 the National Bank of Ukraine declined approval of the articles of association of ALLO BANK PUBLIC JOINT STOCK COMPANY.

At the same time during 2014 the National Bank of Ukraine approved amendments to the articles of association of 56 banks and made relevant records to the State Register of Banks. Moreover, 17 amendments to the ownership structures of banking groups were made in the accounting year.

During the year one bank, RENAISSANCE CAPITAL BANK PUBLIC JOINT STOCK COMPANY, received a permission for reorganization through its acquisition by the FIRST UKRAINIAN INTERNATIONAL BANK PUBLIC JOINT STOCK COMPANY.

Accreditation of representative offices of foreign banks in Ukraine was not done by the National Bank of Ukraine in 2014.

The National Bank of Ukraine cancelled accreditation of five representative offices of foreign banks in Ukraine, namely: Balkan Investment Bank AD Banja Luka -

²⁵ Approved by the Resolution of the National Bank of Ukraine No. 649-p dated 13 December 2013.

Representative Office in Kyiv (24 March 2014), Representative Office of AS "SMP Bank" in Kyiv (3 July 2014), Representative Office of CREDIT SUISSE AG in Ukraine (30 September 2014), Representative Office of Landesbank Berlin AG in Ukraine (23 December 2014) and the Representative Office of UBS AG (Switzerland) in Kyiv (30 December 2014) and made the relevant records to the State Register of Banks.

Over the course of 2014 the National Bank of Ukraine issued a banking license to render banking services to VECTOR BANK PUBLIC JOINT STOCK COMPANY and Bridge Bank KRISTALBANK PUBLIC JOINT STOCK COMPANY and included the relevant information regarding these two banks in the State Register of Banks.

Banking licenses of the following 19 banks to render banking services were withdrawn due to liquidation:

- Commercial Bank "Daniel" Public Joint Stock Company;
- BLACK SEA BANK FOR DEVELOPMENT AND RECONSTRUCTION PUBLIC JOINT STOCK COMPANY;
- Bank "Morskyi" Public Joint Stock Company;
- REAL BANK PUBLIC JOINT STOCK COMPANY;
- BROKBUSINESSBANK Public Joint Stock Company;
- BANK FORUM PUBLIC JOINT STOCK COMPANY;
- MERKURII PUBLIC JOINT STOCK COMPANY;
- COMMERCIAL BANK "INTERBANK" PUBLIC JOINT STOCK COMPANY;
- Zakhidinkombank Public Joint Stock Company;
- AVTOKRAZBANK PUBLIC JOINT STOCK COMPANY;
- COMMERCIAL BANK "PROMEKONOMBANK" PUBLIC JOINT STOCK COMPANY;
- STAROKYIVSKYI BANK PUBLIC JOINT STOCK COMPANY;
- COMMERCIAL BANK "PIVDENKOMBANK" PUBLIC JOINT STOCK COMPANY;
- FINROSTBANK PUBLIC JOINT STOCK COMPANY;
- EUROPEAN GAS BANK PUBLIC JOINT STOCK COMPANY;
- UKRAINIAN FINANCIAL WORLD PUBLIC JOINT STOCK COMPANY;
- BANK ZOLOTI VOROTA PUBLIC JOINT STOCK COMPANY;
- TERRA BANK PUBLIC JOINT STOCK COMPANY;
- Commercial bank ACTIVE BANK PUBLIC JOINT STOCK COMPANY.

In addition, during 2014 the National Bank of Ukraine did the following:

- replaced the banking license of four banks due to change of their name;
- reviewed notices of 24 banks on commencement of a new type of activity;

– reviewed notices of 9 banks regarding commencement of a new type of activity and sent letters of notification about non-observance of the terms by the banks according to which they are authorized to commence a new type of activity.

Table 8. Individual licenses, general licenses, special permits and approvals of the National Bank of Ukraine to carry out operations involving FX values issued to banking institutions, non-banking financial institutions, legal entities and individuals

	2014, pcs.	For reference only: 2013, pcs.
To banking institutions	40	46
including:		
general licenses to carry out operations involving currency values	24	32
individual licenses to carry out operations involving currency values, where:	16	14
authorizing to transfer foreign currency outside Ukraine for payment of bank metals
for transfer of currency values outside Ukraine for use of foreign currency within the territory of Ukraine as a means of payment	6	6
for investments to foreign countries	5	4
for placement of currency values on accounts outside Ukraine	5	4
To non-banking financial institutions, legal entities and individuals	431	512
where:		
individual licenses to use foreign currency as a means of payment within the territory of Ukraine	10	11
individual licenses for export, remittance, transfer of foreign currency to foreign countries	7	18
individual licenses for placement of currency values on accounts outside Ukraine	215	230
individual licenses for investments to foreign countries	171	209
individual licenses for move of securities through the customs border of Ukraine	...	1
general licenses for conduct of currency operations by non- banking financial institutions	20	25
approval of transfer of the funds by the residents to foreign countries under agreements stipulating performance of the work and provision of services by non-residents	4	9
special permits for import of investment metals, payment documents, foreign currency to Ukraine	4	9

For 2014 the National Bank of Ukraine provided the banks with 24 general licenses and 16 individual licenses to carry out operations involving currency values; non-banking financial institutions, legal entities and individuals – 431 individual licenses, general license, approval and special permit to execute operations involving currency values.

During the year 139 amendments to individual licenses were made, 33 individual licenses were cancelled, four general licenses authorizing to carry out FX operations by the banks and 13 general licenses to carry out FX operations by non-banking financial institutions were withdrawn.

Within the accounting year the National Bank of Ukraine received documents of 13 payment infrastructure service providers for registration, where three providers were registered.

Furthermore, in 2014 the National Bank of Ukraine approved the rules of three new money transfer systems developed by the residents, and registered 34 new members of the international payment systems organized by non-residents.

2.3. SUPERVISION OVER ACTIVITIES OF THE BANKS OF UKRAINE

According to the established functions and assignments the National Bank of Ukraine organized and ensured inspection over the activities of 147²⁶ banks during 2014, which possessed the license to carry out banking operations.

During supervision over the activities of the banks prudential and inspection types of supervision were combined.

Prudential (off-site) supervision

Off-site supervision of the banks' activities was exercised on the basis of statistical reporting of the banks, inspection reports, opinions of regional offices, auditors' opinion, information of the banks on fulfillment of action plans regarding improvement of the financial condition and removal of shortcomings and violations in the activities of the banks in order to ensure observance of the requirements of the effective laws and regulatory legal acts of the National Bank of Ukraine by the banks, as well as fulfillment of commitments taken by the banks on improvement of their activities and mitigation of existing risks.

²⁶ The number of the banks is determined including SP BANK JSC, UKRKOMUNBANK PJSC, State Land Bank PJSC and TRANSITION BANK "KRISTALBANK" PJSC.

To avoid unstable situation in the banking system caused by the impact of a difficult political and economic situation, daily analysis of indicators of banks' activities was carried out during a year as well as analysis of the customers' cash flows (including individuals and non-resident customers), control over observance of prudential requirements of the banking laws by the banks, and application of adequate enforcement measures to the banks and their chairpersons in case of any violations.

Special attention in the accounting year was drawn to supervision over the major systemic state-owned banks State Savings Bank JSC (Oschadbank) and Ukreximbank JSC (which service state programs, namely, programs on lending prioritized economy activities established by the state, including fuel and energy complex), as well as the banks recapitalized with the participation of the state (RODOVID BANK JSC, JSB KYIV PJSC and Ukrgasbank JSB).

In consideration of urgent need to improve efficacy of the state sub-sector of the banking system based on results of analyzed activities of the state banks and banks recapitalized with the participation of the state it was established that the activities of RODOVID BANK JSC, JSB KYIV PJSC, State Land Bank PJSC and UBRR PJSC in 2014 did not correspond to implementation of their strategies and the goal of their incorporation by the state. Thus, the current owner, namely, the Ministry of Finance of Ukraine, is deciding on further operation of the aforementioned banks and possibility of their functioning as banking institutions for the purpose of saving funds of investors of such banks, minimizing risks inherent to the activities of the banks and sparing state funds. Today, they are considering possible consolidation of the assets of such banks which will increase efficiency of their operation and decrease costs for administration of them.

The National Bank of Ukraine also exercised stronger supervision over the banks provided with refinancing, namely, in terms of fulfillment of the measures of financial recovery by them in compliance with the developed programs of financial recovery.

For the purpose of raising sustainability of the banking system of Ukraine and protection of investors' and creditors' interests, and as the execution of obligations accepted by Ukraine against the IMF, the National bank diagnosed 35 largest banks of Ukraine in the accounting year in order to assess quality of the assets, adequacy of the regulatory capital, establishment of required volumes of additional capitalization for a period till the end of 2016. Diagnostic study was done in two stages: 15 top banks of group I were studied before 31 July 2014, and the following 20 largest banks were inspected before 30 September 2014. According to its findings it was determined that 17 banks required additional capitalization for a total of UAH 57.9 billion.

Within the framework of reforming the banking system of Ukraine and implementing modern international approaches the "curatorship" was introduced to the supervision procedure by the National Bank of Ukraine in 2014. Being physically present at the bank, the curator exercised double control over its activities by analysis of the financial and statistical reporting and other information related to the activities of the bank. Within the year under review, decisions were made to appoint curators to 51 banks (both to the banks of general mode of supervision having indebtedness under the loans disbursed by the National Bank of Ukraine and the banks included in the category of problem banks).

To ensure appropriate supervision over the banks' compliance with the requirements of the law regulating relations in the area of counteraction to legalization (laundering) of the proceeds from crime or financing of terrorism the specialists of the National Bank of Ukraine made 39 off-site supervision Acts during 2014.

Moreover, in 2014 the National Bank of Ukraine controlled quality of the audit of annual statements of the banks carried out by the audit firms. Auditor's reports on annual financial and consolidated statements of the banks for 2013 were reviewed and analyzed in terms of establishment of their compliance with the requirements of the regulations of the National Bank of Ukraine and international audit standards, and it also analyzed agreements on audit of the financial statements for 2014 made by the banks.

On the basis of the financial statements external audit quality assessment, the letters were sent to the audit firms, Audit Chamber of Ukraine and the banks regarding the shortcomings identified over the course of rendering audit services for the purpose of prevention of significant mistakes in future. According to the Regulations on the Procedure of Keeping Register of Audit Firms Authorized to Audit Banks²⁷, based on the decision made by the NBU Bank Audit Committee, one audit firm was excluded from the Register of Audit Firms Authorized to Audit Banks in the reporting year.

On-site supervision

One of the important forms of banking supervision remained inspections of the banks which were carried out in accordance with the Plan of Inspections of the Banks and their Standalone units for 2014 and out of schedule, in case of justified reasons and pursuant to the instructions of duly authorized officials of the National Bank of Ukraine.

During 2014 the National Bank of Ukraine carried out 585 inspections of 98 banks being the legal entities and 127 inspections of their standalone units, where 184 were scheduled inspections and 72 unscheduled, as well as 329 inspections of the condition of pledged collateral (real estate) under the loans disbursed by the National

²⁷ The Regulation is approved by Resolution of the National Bank of Ukraine Board No. 410 dated 17 November 2011.

Bank of Ukraine. Moreover, during the year 5,967 inspections of the banks, financial institutions, national operator of postal communication were carried out to check their compliance with the requirements of the FX law and regulatory legal acts of the National Bank of Ukraine, including 2,147 scheduled and 3,820 unscheduled inspections. In the area of financial monitoring the specialists of the National Bank of Ukraine made 204 on-site inspections of the banking institutions (162 scheduled and 42 unscheduled).

The main thematic areas of inspection were the following:

- assessment of activities of the banks according to the components of CAMELS rating system (asset quality, management quality, liquidity, earnings and profitability, capital adequacy) and quality of operational risk management;
- fulfillment of the financial recovery program by the banks as well as obligations under the loan agreements signed with the National Bank of Ukraine, quality of collateral provided as the security under refinancing and stabilization loans²⁸;
- observance of the law regulating keeping, protection, use and disclosure of the bank secrecy;
- quality of the bank's information security system management;
- individual issues of the banks' activities (quality of assets, complaints and applications of the customers, etc.);
- observance of the requirements of banking law by the banks on informing borrowers about the terms of lending and total value of the loans;
- fulfillment of obligations against creditors and investors of the bank;
- special issues related to formation of the authorized capital;
- observance of currency law requirements;
- banks' fulfillment of requirements of the law regulating relations in the field of counteraction to legalization (laundering) of the proceeds from crime or financing of terrorism.

The procedure for inspection of the bank was developed in terms of the following:

- development of methodological recommendations regarding assessment of the quality of liquidity risk management;
- bringing officials of the bank to administrative liability based on inspections findings.

²⁸ Inspections carried out according to the requirements of paragraph 4 of Resolution of the National Bank of Ukraine Board No. 327 dated 13 July 2012 and paragraph 5.2 of the Regulation on Disbursement of Stabilization Credits to the Banks of Ukraine approved by Resolution of the National Bank of Ukraine Board No. 327 dated 13 July 2012.

Based on inspections findings, the banks were provided with recommendations regarding additional provisioning for asset operations (by UAH 35.9 billion), increase of capital (by UAH 64.8 billion) and replacement of security under the credits disbursed by the National Bank (by UAH 47.2 billion), and proposals regarding application of enforcement measures adequate to the identified violations to the banks.

During 2014 due to the identified violations of the requirements of the banking law in the activities of the bank and execution of risky operations by the banks the National Bank of Ukraine initiated and applied the following corrective measures²⁹:

- 97 written warnings were sent to 65 banks, control over fulfillment of the measures to eliminate the violations by such banks was set;
- nine written agreements were signed with 12 banks, which were designed for improvement of their financial condition, elimination of violations of the banking law;
- 18 decisions were made on 12 banks regarding limitation and/or termination of some types of operations conducted by the bank;
- corrective measures in the form of penalties were applied to 34 banks (39 decisions);
- administrative enforcements in the form of the penalty were applied to the official persons of 46 banks (77 Resolutions);
- one decision was made on one bank regarding temporary removal of an official of the bank from office before elimination of the violation;
- decision was made to include 33 banks in the category of problem;
- decision was made to include 28 banks in the category of insolvent;
- resolutions were made to withdraw a banking license and initiate liquidation procedure at 17 banks³⁰.

According to actual violations of the FX law identified as a result of inspections 920 resolutions were made on bringing violators to liability for a total of UAH 3.6 million. The major share of such resolutions was made against the banks for untimely provision, concealment or distortion of the reporting on currency operations.

The following was also made:

- 189 written warnings to 83 banks with the demand to remove violations of regulatory legal acts of the National Bank of Ukraine and measures on evidence of such violations in further activities;

²⁹ Excluding enforcement measures/sanctions applied for violation of the law on financial monitoring and FX law.

³⁰ The procedure for liquidation of the aforementioned banks is carried out by the DGF according to the requirements of the Law of Ukraine "On the Households Deposit Guarantee System" enacted on 22 September 2012.

– five decisions of the Committee for Supervision and Regulation of Banks' Activities of the National Bank of Ukraine (hereinafter referred to as the "Committee") on limitation of five banks in execution of operations with foreign cash (sale, exchange) at the cash desks and foreign currency exchange points;

– two decision of the Committee on imposition of the penalty on two banks for a total of UAH 67,890.04 for failure to (properly) fulfill the requirements of the regulations of the National Bank of Ukraine.

Table 9. Resolutions made on bringing authorized banks to liability for violation of the requirements of currency law

Types of violations	2014		For reference only: 2013	
	number of resolutions, pcs.	amount, UAH thousand	number of resolution, pcs.	amount, UAH thousand
Untimely provision, concealment or distortion of the reporting on FX operations	712	1 604.8	975	1 703.4
Non-fulfillment of FX control agent's functions	129	883.4	167	2 290.7
Violation of the procedure and terms of FX trade in the interbank FX market of Ukraine	8	135.5	16	715.6
Non-fulfillment of the procedure and terms of declaration of currency values owned by the resident of Ukraine and located outside Ukraine	1	0.2	8	2.1
Use of foreign currency as a means of payment within the territory of Ukraine without an individual license	70	995.1	112	437.6
Placement of currency values on accounts outside Ukraine without an individual license	13	17.7
Total	920	3 619	1 291	5 167.1

Inspections findings allowed the banks paying timely attention to weaknesses in the system of managing risks of legalization of proceeds from crime/terrorism financing in order to avoid and prevent the identified risks in future. Based on identified violations, adequate corrective measures/sanctions applied, including in the form of inclusion of the banks in the category of problem/insolvent.

Key reasons for imposition of the penalties on the banks were the following:

– non-compliance with the requirements of the National Bank of Ukraine regulations covering banks' activities;

– submission of incorrect reporting or reporting containing distorted data to the National Bank of Ukraine;

– violation of the requirements of the National Bank of Ukraine regulations defining the rules for disclosure of the information to the consumers regarding lending and total cost of the loan as well as the rules for storage, protection, use and disclosure of the bank secrecy;

– a failure to fulfill liabilities under the loan agreements signed with the National Bank of Ukraine.

Plan³¹ of bank inspections for 2014 has been fully delivered.

Over 2014, as the fulfillment of requirements of the law in the field of prevention and counteraction to legalization of proceeds from crime/terrorism financing, the banks of Ukraine ensured provision of the Specially Authorized Body with more than 1.1 million notifications about the financial operations which were the object of financial monitoring in 2014. Within the framework of cooperation between the on-site bank supervision function and the law enforcement authorities, eight notifications were sent to the special departments for fighting organized crime of the Ministry of Internal Affairs and Security Service of Ukraine in compliance with the article 18 of the Law of Ukraine "On Organizational and Legal Basis for Fighting Organized Crime". Following the court orders, materials for caption on 12 banking institutions were prepared.

2.4. TERMINATING ACTIVITIES OF THE BANKS OF UKRAINE

During 2014 the National Bank of Ukraine was closely cooperating with the Deposit Guarantee Fund (hereinafter referred to as the "DGF") within the framework of the Activity Cooperation and Coordination Agreement dated 9 July 2012 (as amended) made between the National Bank of Ukraine and DGF. In particular, there were meetings, data and experience exchange.

As of 1 January 2015 according to the law effective before 22 September 2012 (the date of enactment of the Law of Ukraine "On Households Deposit Guarantee System"), 22 banks were at the stage of liquidation, where the National Bank of Ukraine decided on approval of liquidation balance sheets and approval of final reports of liquidators on 12 of them. Liquidators of the banks take measures on exclusion of them from the Unified Register of Legal Entities and Private Entrepreneurs.

³¹ Including changes made during the year.

During the year a record was made in the Unified Register of Legal Entities and Private Entrepreneurs on successful registration of winding-up of the legal entity Slovianskyi CJSB.

**Table 10. Dynamics of key indicators of the banks
which undergone liquidation procedure**

(UAH million)			
Indicators	As of 1 January 2015	As of 1 January 2014	Deviation
Number of banks, pcs.	22	23	-1
Banks' assets	2 155.3	5 689.3	-3 534.0
Balance of outstanding claims of the creditors included in the list of claims of the bank's creditors	2 356.6	4 268.8	-1 912.2
Approved claims of individual depositors	315.4	420.2	-104.8
Satisfaction of creditors' claims by liquidators, including through collateral foreclosure	78.1	179.9	-101.8
Satisfaction of claims of individual depositors by liquidators	0.9	4.3	-3.4

Furthermore, as of 1 January 2015 the National Bank of Ukraine controlled activities of 11 legal entities which are provided with unsold assets of 13 banks for management under the relevant agreements (Allonge JSB, Ukraine JSB, EBRZ OJSB, European JSB, CB National Standard OJSC, BRR, JSB, Ukrprombank LLC, CEB JSB, SCB Dnister OJSC, JSB Syntez PJSC, BIG Energy bank OJSC, ZEMELNYI BANK PJSC and Transbank JSB) at the cost of which pending claims of the creditors must be repaid.

The issue of repayment of refinancing loans was decided by the bank liquidators by means of sale of the property (assets) of the banks pledged with the National Bank.

Over the course of the year measures were taken on improvement of the status of claim satisfaction against the liquidated banks and, first of all, satisfaction of claims of depositors being individuals. The Deposit Guarantee Fund paid the guaranteed compensation on the deposits for a total of UAH 6,199.8 million in 2014.

Table 11. Indicators of unsold assets provided for management and unsatisfied claims of bank creditors as of 1 January 2015

(UAH million)

Indicator	Value
Number of managers of unsold banks' assets, pcs.	11
Assets placed under management	8,944.5
Balance of transferred unsatisfied claims of creditors	14,926.0
Transferred unsatisfied claims of individual depositors	211.1
Claims of individual depositors satisfied by managers	4.8
Передані непогашені вимоги вкладників – фізичних осіб	211.1
Задоволені управителями вимоги вкладників – фізичних осіб	4.8

Peculiarities of operation of the banking system of Ukraine under the terms of external aggression

Due to the lack of possibility to exercise bank regulation and supervision, FX control and state financial monitoring over the activities of the banks in Crimea, and as the fulfillment of the Law of Ukraine "On Ensuring Rights and Freedoms of the People and Legal Regime on Temporary Occupied Territory of Ukraine" the National Bank of Ukraine was forced to terminate any further activities of banking institutions and their standalone units in AR Crimea in May. Effective since 6 May 2014 it was not allowed establishing any correspondent relations with the banks of Ukraine and/or foreign banks, other credit or financial institutions located and/or operating within the territory of AR Crimea and the city of Sevastopol. So, effective since 6 May 2014, BLACK SEA BANK FOR DEVELOPMENT AND RECONSTRUCTION PUBLIC JOINT STOCK COMPANY and BANK "MORSKYI" PUBLIC JOINT STOCK COMPANY were excluded from the State Register of Banks. Furthermore, standalone units of 67 Ukrainian banks were closed, namely: three representative offices, nine branches and 1,425 departments.

After withdrawal and cancellation of banking licenses and general licenses to carry out FX operations, participation of BLACK SEA BANK FOR DEVELOPMENT AND RECONSTRUCTION PJSC and BANK "MORSKYI" PJSC in the system of electronic payments was terminated. Calculation of indicators of the monetary and credit statistics excludes the data of statistical reporting of the aforementioned banks effective since April 2014.

As a result of annexation of AR Crimea and escalation on military activities on a part of the territory of Donetsk and Luhansk Oblasts there was a situation that made it impossible for the banking system to operate in normal mode. Thus, the National Bank of Ukraine took all required measures to set stable operation of the system of electronic payments (SEP) in the abovesaid regions and ensured operation of SEP on a backup unit in June 2014. Moreover, all management, supervisory and other functions related to regulation of liquidity and conduct of operations with the banks of those territorial departments of the National Bank of Ukraine, which did not have any possibility to execute their functions due to either technical reasons or reasons caused by physical threat to the life of the employees, were temporary centralized. Already in July the National Bank of Ukraine established the rules for operation of the banking system in emergency mode³².

In order to ensure stability of the financial system of Ukraine and avoid

³² Resolution of the Management Board of the National Bank of Ukraine No. 436 dated 23 July 2014.

possession of the state funds, funds of the banks and other institutions to terrorist groups all types of financial operations at the inhabited settlements controlled by the terrorists within the territory of Donetsk and Luhansk Oblasts were suspended. In addition, the National Bank of Ukraine decided on limitation of financial operations by the banks and non-banking institutions as well as the national operator of postal communication, which are the payment organizations of internal state/international payment systems and/or their members, at the inhabited settlements that are not controlled by the Ukrainian government³³. As soon as the relevant district/city of regional importance of Donetsk and/or Luhansk Oblast returns under control of the Ukrainian government the banks will restore financial operations.

If it is impossible to remove cash and other values, the banks are authorized to damage cash by standardized methods which ensure loss of payment indications by money signs. A working group of the National Bank of Ukraine, which should facilitate restoration of operation of the banking system in these territories, was organized.

After establishment of the emergency mode, UKRKOMUNBANK PJSC and SP BANK JSC informed the National Bank of Ukraine about the impossibility to operate, and in July 2014 operation of these banks in SEP was blocked; the banks were temporary excluded from SEP Member Reference Book. Support of the banks with cash for departments located in Donetsk Oblast was carried out by NBU regional offices of other oblasts for a total amount of UAH 1.9 billion.

As a response to the petition of the banks, which departments were located in Donetsk Oblast and Luhansk Oblast the territory of which was not controlled by the Ukrainian Government, the National Bank of Ukraine prepared 26 administrative documents in 2014, where 18 of them were orders of NBU for 14 banks to damage banknotes and eight orders of NBU for six banks to destroy samples of banknotes of the domestic currency.

Further, according to the situation at the inhabited settlements not controlled by the government, the National Bank of Ukraine improved the procedure for organization of operation of the banking system in an emergency mode. Changes concerned both cash handling and the mode of operation of SEP under the terms jeopardizing their normal functioning. In particular, the rules for organization of security of the premises of the banks of Ukraine, collection of the money and transportation of currency values, destruction/damaging of the money signs of the national currency, if it is impossible to remove cash, methods of data security and others were detailed.

³³ Resolution of the Management Board of the National Bank of Ukraine No. 466 dated 6 August 2014.

According to the regulations passed by the Verkhovna Rada of Ukraine, the National Bank of Ukraine established peculiarities of application of some provisions of the FX law during the mode of temporary occupation within the territory of free economic zone "Crimea".³⁴ It was established that the entity which place of location is Crimea shall be equivalent to a non-resident, and in terms of its investment operations it shall be equivalent to a foreign investor. A private individual, who is an internally displaced person and who possesses the relevant certificate certifying his/her residence on the mainland Ukraine, which is provided for in the Ukrainian law, shall be a resident of Ukraine. Residents of Ukraine are not allowed investing in the objects either located or registered in the territory of Crimea. Agreements made between the entities of Crimea and entities of mainland Ukraine shall be equal to foreign economic agreements. It is also determined that foreign currency and/or Ukrainian hryvnias can serve as the currency of settlements between the legal entities, private entrepreneurs registered on mainland Ukraine and the entities of Crimea under current trade operations. Money transfer for the purpose of payment of obligations related to location of the property in the territory of Crimea shall be carried out by the residents from their personal current accounts opened with the authorized banks. If such transfer is made by the resident in hryvnias, the authorized banks shall transfer the money in hryvnias through the relevant correspondent accounts of non-resident banks in hryvnias. It is established that the documents, decisions issued by the authorities of the Russian Federation and illegal bodies organized within the territory of free economic zone "Crimea" in terms of the entities of Crimea and their activities shall be invalid and shall not be used by the banks for operations of the entities of Crimea, implementing measures of FX control and financial monitoring. Moreover, this decision also restricted raising deposits on mainland Ukraine, including on previously concluded and prolonged agreements, as well as disbursement and prolongation of the loans, including on overdraft loans in Russian Rubles. SEP shall not operate on the temporary occupied territory of Ukraine.

For the purpose of mitigating impact of the circumstances on operation of the banking system, which are caused by temporary occupation of the territory of the Autonomous Republic of Crimea and the city of Sevastopol, implementation of emergency mode of operation of the banking system within the territory of Donetsk and Luhansk Oblasts as well as devaluation of the national currency, the National Bank of Ukraine decided not to apply corrective measures to the banks for violation of some economic standards, increase of a share of negatively classified assets,

³⁴ Resolutions of the Management Board of the National Bank of Ukraine No. 699 dated 3 November 2014 and No. 810 dated 16 December 2014.

infringement of the procedure for formation and keeping of required reserves. Furthermore, permissible conditions and limitations in terms of execution of particular operations which may expose them to additional risks were set for banks.³⁵

Over the course of temporary occupation of the territory of the Autonomous Republic of Crimea and the city of Sevastopol the banks obtained the right to classify mortgage loan disbursed to a forcibly displaced person, who fails to repay the principal credit amount on such loan, and where the security is located (registered) in the temporary occupied territory, according to the quality category established by the bank as of the day of commencement of temporary occupation³⁶.

The aforementioned changes are designed for softening negative impact of temporary occupation of a part of Ukraine's territory on the financial condition of the lending banks.

For reference: In October the Law of Ukraine No. 1669-VII dated 2 September 2014 "On Temporary Measures for a Period of Anti-Terrorist Operation" the provisions of which temporary cancelled forfeit and/or penalties accrued on the principal outstanding amount arising on the obligations under the credit agreements and loan agreements over the course of anti-terrorist operation, was enacted. Provisions of the Law cover the citizens of Ukraine from the inhabited settlements, which are provided for in the list approved by the Cabinet of Ministers of Ukraine, where the anti-terrorist operation is held.

³⁵ Resolutions of the Management Board of the National Bank of Ukraine No. 529 dated 26 August 2014 and No. 859 dated 25 December 2014.

³⁶ Resolution of the Management Board of the National Bank of Ukraine No. 727 dated 19 November 2014.

3. REGULATION OF CASH CIRCULATION AND NON-CASH SETTLEMENTS

3.1. ENSURING FUNCTIONING OF CASH CIRCULATION

During 2014 the National Bank of Ukraine ensured smooth and timely satisfaction of the needs in banknotes and coins of all denominations.

Ensuring supply of banknotes and coins

Daily monitoring of the status of cash circulation, balances of banknotes and coins in the cash in vaults of the National Bank of Ukraine regional offices was done as well as timely supply with cash. The National Bank of Ukraine issued banknotes and coins from its reserves for a total amount of UAH 110.3 billion during 2014 (UAH 83.5 billion in 2013).

In the year under review the regional offices satisfied needs of the banks in cash in the amount of UAH 121.3 billion, including support for payment of pensions through the telecommunication companies based on a preferential rate amounting to UAH 72.0 billion. Total level of support under all preferential rates amounted to UAH 97.7 billion.

Given a difficult situation in the eastern Ukraine, numerous military assaults on the banks the institutions located in Donetsk Oblast were supported with cash by the regional offices of the National Bank of Ukraine located in Dnipropetrovsk Oblast (for a total amount of UAH 0.3 billion), in Zaporizhia Oblast (UAH 1.7 billion) and in Kharkiv Oblast (UAH 1.0 billion). Furthermore, departments of the National Bank of Ukraine located in Kharkiv Oblast provided support for the departments located in Luhansk Oblast for a total amount of UAH 1.5 billion.

Cash processing and withdrawal of unfit banknotes

In 2014 regional offices and Central Vault received almost 3.0 billion banknotes for processing, including 2.2 billion banknotes from the banks, which was at the level of 2013.

Within the reporting year 2.6 billion banknotes were counted, including 2.4 billion banknotes processed by automated systems. Worn banknotes in the amount of 889.26 million units were withdrawn from circulation.

Examination of banknotes

Based on results of examination done by the experts of the National Bank of Ukraine in 2014, 7501 banknotes of the domestic currency for a total amount of UAH 781,594 were proved counterfeits and were withdrawn from circulation, which is by 3.9 and 26.3% more than in 2013 respectively.

On the basis of results of 2014 approximately 3 counterfeit banknotes fell for 1 million original banknotes of Ukrainian Hryvnias (3.5 banknotes were in 2013).

Counterfeit banknotes withdrawn from circulation were mainly the banknotes with face value of UAH 50 (3,650 pcs.), UAH 100 (1,628 pcs) and UAH 20 (723 pcs.).

Almost all (99.5%) withdrawn counterfeit banknotes of hryvnia were made using computer graphics and copying equipment.

Furthermore, banknotes of the following foreign currencies were proved counterfeit and withdrawn from circulation: US Dollars – 357 pcs. (438 pcs. in 2013); Euro – 323 pcs. (113 pcs. in 2013); Russian Rubles – 106 pcs. (368 pcs. in 2013).

The major share of counterfeit banknotes of foreign currency withdrawn from circulation was the banknotes with face value of 100 US dollars (94.7% of the total number of withdrawn counterfeit US dollars), 200 Euro (85.4% of the total number of withdrawn counterfeit Euro) and 5,000 Russian Rubles (83.0% of the total number of withdrawn counterfeit Russian Rubles).

Majority of withdrawn counterfeit US Dollars (92.2%) and Euro (98.1%) were produced by printing technology. Withdrawn counterfeit Russian Rubles were produced using computer graphics and copying equipment.

Issue and distribution of commemorative and bullion coins

According to the Schedule of Issue of Commemorative Coins of Ukraine and Souvenir Products, 43 commemorative coins (35 titles) were put into circulation in 2014, where 16 were made of silver, as well as coins made of non-precious metal (17 coins made of German silver and 10 bimetal coins). Total issue of coins was 700.5 thousand pieces, including 100.5 thousand pieces made of precious metals.

The National Bank of Ukraine commemorated such significant events as the 200th anniversary of Taras Hryhorovych Shevchenko, 120 years since Oleksandr Dovzhenko's birth, the 70th Anniversary of Ukraine's liberation from Fascist invaders. The coins issued included the coin "Korsun-Shevchenkovsky Offensive", a series of "Oblasts of Ukraine" coins, continued, "180 Years of Taras Shevchenko National University of Kyiv", etc.

In 2014 the National Bank of Ukraine sold 707.7 thousand pieces of commemorative coins for a total amount of UAH 52.1 million, including coins made of gold – 2.0 thousand pieces, coins made of silver – 58.6 thousand pieces, German silver – 647.1 thousand pieces. Coins were sold by the regional offices of the National Bank of Ukraine and distributing banks.

A competition "Best Coin of the Year" among the commemorative coins put into circulation in 2013 took place in 2014. Winners in three categories were announced:

– "Best Coin of the Year" – a commemorative coin "Ukrainian Vyshyvanka";

- "Unique Concept" – a commemorative coin "Motherhood";
- "Best Artistic Design" – coin "*Otis tarda*".

Over the course of 2014, 43.2 thousand investment coins were sold for a total of UAH 186.0 million (or 1.4 times more than in 2013), including coins made of gold – 25.6 thousand pieces, coins made of silver – 17.6 thousand pieces. Such volumes of sale testify to the interest of the people in such monetary products which is a reliable way of savings and investments.

In 2014, 33 authorized banks sold bullion coins both to legal entities and individuals at independently established prices pursuant to the agreements made with the National Bank of Ukraine.

Banknote Printing and Minting Works and Banknote Paper Mill

Production activities of the Banknote Printing and Minting Works and Banknote Paper Mill in 2014 were carried out in compliance with the installed production capacities, assignments of the National Bank of Ukraine and agreement signed with other customers.

In 2014 the Banknote Paper Mill produced 2 611 tons of paper, or 73 263 million sheets, which is 68.9% more than in 2013. Banknote Printing and Minting Works of the National Bank of Ukraine within the volumes approved by the Management Board of the National Bank of Ukraine shipped paper for banknotes – 1 216.1 tons, or 28.6 million sheets and paper for research and technological works – 19.3 tons, paper for production ballot papers – 150.7 tons, for checkbooks – 29 tons.

Furthermore, on contractual basis the Banknote Paper Mill supplied 10 types of secure paper in the amount of 1,140 tons as ordered by the other state institutions and 82.9 tons of paper as ordered by CRANE AB (Sweden).

Within the framework of approved assignments and concluded agreement the Banknote Printing and Minting Works produced the following in the accounting year: banknotes of different face value – 1 217.5 million pcs., various coins of different face value – 895 million pcs., commemorative and anniversary coins – 700.7 thousand pcs., investment coins – 43.7 thousand pcs., souvenir products as ordered by the National Bank of Ukraine – 110.2 thousand pcs.; securities ordered by the National Bank of Ukraine – 30 597.8 thousand pcs., medals, orders, badges and other products – 12.4 thousand pcs., including those ordered by the State Management of Affairs – 8.1 thousand pcs.

Total volume of manufactured products and rendered services in the reporting year equaled UAH 879.5 million, including as ordered by the National Bank – UAH 832.3 million. As compared with 2013 total volumes of products ordered by the National Bank of Ukraine grew by UAH 154.3 million, by state institutions and

organizations – by UAH 29.9 million.

Total gross profit of the Banknote Printing and Minting Works in 2014 was UAH 15.3 million, which is UAH 670.1 thousand lesser than in 2013 due to fluctuation of the cost of precious metals, change of currency exchange rate which affected cost of metals.

According to the Strategic Program for Activities of the National Bank of Ukraine Regarding Development and Improvement of Production of Banknotes and coins 2012 to 2015, Investment Program of the National Bank of Ukraine 2012 to 2013 for Investments – Creation of Material Base to Ensure Production of the Money and Other Related Products, the Banknote Printing and Minting Works replaced physically and morally obsolete equipment for production of banknotes and coins.

As a result of implementation of progressive technologies the Banknote Paper Mill developed production of the paper for Ukrainian Hryvnia banknotes of UAH 100 denomination of 2014 design, and produced a batch of banknote paper for export.

State Enterprise "Polygraph Combine "Ukraina" for securities' production"

During 2014 the State Enterprise "Polygraph Combine "Ukraina" for securities' production" (hereinafter referred to as the "Polygraph Combine "Ukraina"), which is subject to the area of management of the National Bank of Ukraine, ensured the need of the governmental authorities in document forms protected against forgery, namely, securities, excise tax stamps, passport documents, ballot papers for extraordinary election of the President of Ukraine held on 25 May 2014 and elections of the deputies of Ukraine held on 26 October 2014, etc.

As the fulfillment of the Action Plan on Visa Liberalization between Ukraine and European Union and according to the Action Plan on Implementation of Documents Confirming the Citizenship of Ukraine, Identifying Person or His/Her Special Status, which have Contactless Electronic Media implanted, and organization of the national system of biometric verification and identification of the citizens of Ukraine, foreigners and persons without citizenship for 2014 to 2017³⁷ the National Bank of Ukraine implemented the measures on production and personalization of document forms at Polygraph Combine "Ukraina" which identify person, confirm citizenship of Ukraine or special status of a person, which the contactless electronic media is implanted in.

For the purpose of ensuring personalization of the forms of passport documents at Polygraph Combine "Ukraina" the State Center for Document Personalization was transferred from management of the State Migration Service of Ukraine to the sphere of

³⁷ Resolution of the Cabinet of Ministers of Ukraine No. 780-p dated 20 August 2014.

management of the National Bank of Ukraine³⁸ by accession to Polygraph Combine "Ukraina"³⁹.

Given the aforementioned information, Polygraph Combine "Ukraina" commenced production and personalization of forms of biometric passport documents in January 2015.

3.2. REGULATION OF PAYMENT SYSTEMS AND DEVELOPMENT OF NON-CASH SETTLEMENTS

The system of electronic payments of the National Bank of Ukraine

The system of electronic payments of the National Bank of Ukraine (hereinafter referred to as the "SEP") is a state system of interbank settlements, where the National Bank of Ukraine is the payment organization and settlement bank. Over the course of 2014, 92.0% of interbank money transfers in the domestic currency were made within Ukraine, the rest – through correspondent accounts opened by the banks with the other banks.

As of 1 January 2015, SEP included 359 members, where 163 were banks of Ukraine, 134 branches of the banks of Ukraine, 26 bodies of the State Treasury Service of Ukraine, 36 institutions of the National Bank of Ukraine⁴⁰.

During 2014 SEP members made 313.0 million initial payments for a total amount of UAH 14.4 trillion, which was 10.0% less in terms of the quantity and 14.0% more in terms of the amount than in the previous year.

In the reporting year the number of transactions on initial payments made by the banks equaled 93.0%, by the State Treasury Service of Ukraine – 6.9%, by the other members – 0.1% of the total number of such transactions made through SEP.

Average daily balance of funds on the accounts of SEP members for 2014 was UAH 34.3 billion. 1.3 million payments for a total amount of UAH 57.4 billion were processed per day on average. Turnover ratio on the accounts of SEP members for a year amounted to 1.67 (as compared with 1.81 in 2013).

³⁸ Resolution of the Cabinet of Ministers of Ukraine No. 525-p dated 27 May 2014.

³⁹ Resolution of the Management Board of the National Bank of Ukraine No. 392 dated 4 July 2014.

⁴⁰ As of 1 January 2015 there are no banking institutions, which are the members of SEP, within the territory of the Autonomous Republic of Crimea and the city of Sevastopol.

Table 12. SEP operation indicators

Period	Volume of initial payments		Average daily indicators			Turnover ratio in SEP
	Number of payments (million pcs.)	Amount of initial payments (UAH billion)	Number of payments (million pcs.)	Amount of initial payments (UAH billion)	Balance of funds on accounts of SEP members (UAH billion)	
2010	337.0	7 909.0	1.3	31.5	25.9	1.21
2011	332.9	10 319.7	1.3	41.3	24.2	1.70
2012	335.5	11 723.1	1.3	46.9	22.9	2.03
2013	347.6	12 685.4	1.4	50.5	27.8	1.81
2014	313.0	14 409.8	1.2	57.4	34.3	1.67

Development of non-cash settlements

In 2014 the National Bank of Ukraine focused its efforts on creation of appropriate conditions for further development of non-cash settlements.

Payment system registration procedure

For the purpose of ensuring reliable and stable transaction of payments and protection of the rights of entities using the money transfer services, the National Bank of Ukraine settled the procedure for registration of payment systems, members of payment systems and operators of services of the payment infrastructure⁴¹ according to which the National Bank of Ukraine implemented registration of operators of services of the payment infrastructure – clearing institutions, processing institutions and other entities duly authorized to render special types of services in the payment system or perform operational, information and other technological functions related to money transfer.

Improvement of the account opening procedure

Due to the amendments in the legislative field of Ukraine made during 2014 and for the purpose of fair taxation of the interest income of the people as well as to ensure financial activities over the course of early election of the President of Ukraine and elections to the Verkhovna Rada of Ukraine a number of amendments to the Instructions on the Procedure for Opening, Use and Closure of Accounts in the National and Foreign Currencies⁴² were made, namely, the following was regulated:

⁴¹ Resolution of the Management Board of the National Bank of Ukraine No. 43 dated 4 February 2014.

⁴² Resolution of the Management Board of the National Bank of Ukraine No. 492 dated 12 November 2014.

– procedure for opening specific account exclusively for crediting of the salary and other social payments provided for in the law, interest income from which is not taxable;

– procedure for closure of accounts of election funds to ensure fulfillment of provisions of the laws of Ukraine "On Election of the President of Ukraine" and "On Elections of Public Deputies of Ukraine".

Improvement of the system of interbank transfers in Ukraine

In 2014 for the purpose of optimizing functions of the National Bank of Ukraine regarding keeping of correspondent accounts of the banks SEP member banks were transferred to servicing on a correspondent account from regional office to the Main Department of NBU for Kyiv and Kyiv Oblast.

Furthermore, amendments were made to the Instructions on interbank money transfer in Ukraine in the national currency⁴³ according to which:

– provisions related to the procedure of forced write-off and arrest of the bank's funds over the course of the work of the provisional administration at the bank were excluded;

– technology was established to write off bank's indebtedness on an uncontested basis from its correspondent account under the overnight unsecured loan.

Issue and use of e-money

To bring provisions of the Regulation on E-Money in Ukraine⁴⁴ in compliance with the requirements of article 15 of the Law of Ukraine *On Payment Systems and Money Transfer in Ukraine*, article 47 of the Law of Ukraine *On Banks and Banking*, as well as to increase control over operations with e-money, the Management Board of the National Bank of Ukraine made Resolution On Amendments to Some Regulatory Legal Acts of the National Bank of Ukraine on Operations with E-Money No. 378 dated 19 June 2014.

During 2014 the National Bank of Ukraine approved the rules for use of e-money (with amendments) in six banks.

According to the information about the activities related to issue and use of e-money which is provided by the issuing banks a total number of e-money in circulation increased during the course of 2014 by 70% (UAH 7.3 million to UAH 12.5 million).

⁴³ Resolution of the Management Board of the National Bank of Ukraine No. 682 dated 28 October 2014.

⁴⁴ The Resolution is approved by the resolution of the Management Board of the National Bank of Ukraine No. 481 dated 4 November 2010.

Maximum amount of cash settlements

In June 2014 there was a public discussion of the Draft Resolution of the Board of the National Bank of Ukraine On Amendments to the Resolution of the Management Board of the National Bank of Ukraine No. 210 dated 6 June 2013 concerning reduction of the maximum amount of cash settlements with the participation of individuals UAH 150,000 to UAH 100,000. Final decision regarding approval of such draft resolution by the management of the National Bank of Ukraine was postponed due to the drafts of the Cabinet of Ministers of Ukraine regarding legislative regulation.

For reference. Today there are effective provisions of Resolution of the Board of the National Bank of Ukraine No. 210 dated 6 May 2013 "On Establishment of Maximum Amount of Cash Settlements", which paragraph 1 establishes maximum amounts of cash settlements, namely, between the companies (businessmen) in the amount of UAH 10 000; private individual with a company (businessman) – in the amount of UAH 150 000; between individuals under the sales and purchase agreements, which are subject to notarization, in the amount of UAH 150 000.

Actions of the National Bank of Ukraine for development of NSMEP

The National Bank of Ukraine as a payment organization of the National System of Mass Electronic Payments (NSMEP) makes every effort to facilitate development of attractive payment space for mass use of payment cards and other electronic means of payment in Ukraine while making non-cash retail payments within the territory of Ukraine.

Within the framework of the Strategic Program for Development of Non-Cash Retail Payments in Ukraine 2012 to 2015, the National Bank of Ukraine in 2014:

- upgraded NSMEP and ensured migration of the payment system to open international standards;
- ensured conditions for issue and servicing of NSMEP payment cards with magnetic stripe and magnetic stripe and chip by NSMEP member banks;
- developed and implemented specifications for NSMEP payment cards with magnetic stripe and magnetic stripe and chip on the basis of EMV;
- the upgraded NSMEP includes risk monitoring of card transactions and implemented modern system of chargebacks (disputes) and maintenance of the work of arbitration committee;
- ensured functioning of the Central Router in the industrial mode as well as settlement and clearing center of the National Bank of Ukraine on the basis of open international standards, which is a technological ground for creation of the national payment space and which ensures execution of settlements and processing of interbank operations with the use of NSMEP payment cards;

– within the framework of pilot project implemented issue and servicing of upgraded EMV chip payment cards on the basis of open international standards at the National Bank by means of the Processing Center of the National Bank of Ukraine. Operations with the use of NSMEP payment cards allowing servicing in the terminal network of NSMEP member banks connected to the Central Router were successfully tested and used.

Central Router ensured receipt, processing and clearing on operations with the use of payment cards of NSMEP member banks connected to it. As of 1 January 2015 the following banks are working in NSMEP system in the interbank mode on the basis of open international standards: State Savings Bank of Ukraine JSC, Ukreximbank JSC, JSB UkrGasbank PJSC, CB Khreshchatyk PJSC, Delta Bank JSC, Fidobank PJSC, Mykhailivskyi Bank PJSC and Imexbank PJSC. CB Privatbank successfully passed testing of operations with the use of NSMEP magnetic stripe payment cards on the basis of open international standards in the interbank mode.

Processing Center of the National Bank was able to ensure issue and servicing of operations NSMEP payment cards on the basis of open international standards for the banks which do not have their own processing centers and desired to be connected to it.

Over the course of 2014 the National Bank of Ukraine continued the work with the banks of Ukraine with regard to their joining NSMEP.

Perspective advantages of joining NSMEP are the following:

– no need to upgrade terminal network to accept NSMEP cards on the basis of open international standards;

– lower weighted average cost of transactions as compared with the cost in any international payment system;

– lesser amount of insurance deposit at NSMEP settlement bank as compared with the international payment systems;

– transparent and simplified policy of rates which enables quick calculation of the cost of any bank product (reduced number of charged services as compared with the international payment systems).

– simplified procedure for issue of NSMEP e-money for member banks.

Upgraded NSMEP is focused on implementation of new types of operations, namely, contactless technologies and mobile payments, which is a necessary part of the modern payment system, and is designed for increase of attractiveness of NSMEP for market players and users of payment services.

Supervision (oversight) over payment systems and settlement systems

For the purpose of implementation of the Laws of Ukraine the National Bank of Ukraine continued the work on creation of regulatory legal base for supervision (oversight) over the payment systems and settlement systems in 2014.

So, by Resolution of the Board of the National Bank of Ukraine No. 755 dated 28 November 2014 the Regulations on Supervision (Oversight) over the Payment Systems and Settlement Systems (hereinafter referred to as the – "Regulations on Oversight of Payment Systems") were approved, which set out the following:

- organizational basis and procedure for off-site supervision (oversight) over the payment systems by the National Bank of Ukraine, which includes monitoring of the payment systems, assessment of them in terms of compliance with the Ukrainian law and international standards of supervision (oversight) over the payment systems, and if necessary, provision of instructions and recommendations for improvement of activities of the payment systems;

- criteria and procedure for establishment of importance of payment systems;

- requirements to the payment organizations of payment systems operating within the territory of Ukraine, including requirements to management and organization of the activities, access to and participation in the payment system, risk management system (legal, credit, liquidity, general commercial, depository, investment, settlement, operational and system risk) and ensuring uninterrupted activities, as well as requirements to the payment systems regarding promulgation and provision of the information of protection of user's rights.

Practical application of the aforementioned regulatory legal act will allow bringing operation of the payment systems in Ukraine closer to the international standards, which will facilitate increase in transparency, reliability and efficient operation of the payment systems in Ukraine, minimization of risks inherent to the payment systems, as well as improvement of the level of protecting rights of the payment system users.

4. OTHER AREAS OF ACTIVITIES OF THE NATIONAL BANK OF UKRAINE

4.1. LEGAL ISSUES AND PROCEDURES OF BANKING SYSTEM OPERATION

Legislative drafting activities

In 2014, the legislative drafting activities of the National Bank of Ukraine consisted in making legislative proposals taken as the basis of draft laws submitted for consideration of the Verkhovna Rada of Ukraine by other subjects with the right to legislative initiative; in reviewing the draft laws developed by people's deputies (members of parliament), the Cabinet of Ministers of Ukraine and other public authorities, as well as in making proposals thereto.

In accordance with the Articles 7, 51 and 52 of the Law of Ukraine On the National Bank of Ukraine, the National Bank of Ukraine submitted proposals on legislative regulation of the issues intended for fulfillment of its functions through people's deputies of Ukraine in 2014.

Thus, in 2014 upon the initiative of the National Bank of Ukraine a draft law of Ukraine On Amendments to Some Legislative Acts of Ukraine on Prevention of Negative Impact on Stability of the Banking System (No. 1586-VII) submitted by a group of people's deputies of Ukraine was submitted for consideration to the Verkhovna Rada of Ukraine. The Law of Ukraine was enacted on 4 July 2014 and provides for the following:

- extension of the sources for formation of the money of the Deposit Guarantee Fund, including by opening a credit line with NBU;
- introduction of the term "systemically important bank" and empowerment of the NBU to determine such banks on the basis of the size, degree of financial relationships and business activities of the bank;
- increase in the minimum amount of the authorized capital of the bank up to UAH 500 million;
- empowerment of the NBU to implement a simplified procedure for conducting the activities related to immediate capitalization of the banks in case of reduction in general volume of deposits in the banking system by five and more percent within the period not exceeding six calendar months;
- empowerment of the NBU to apply enforcement measures against the banks or owners of the qualifying holding in the bank, if foreign state/international organizations apply sanctions to them;
- supplementation of the Law of Ukraine On Households Deposit Guarantee

System with the provisions on removal of an insolvent bank from the market with participation of the state. The state, represented by the Ministry of Finance of Ukraine or the bank in which the state owns a share exceeding 75 percent (excluding remedial bank), shall have the right to take part in the removal from the market of an insolvent bank fulfilling the criteria established by the Cabinet of Ministers of Ukraine subject to approval of the National Bank of Ukraine.

Moreover, in 2014 the National Bank of Ukraine reviewed and gave proposals and comments to 90 draft laws drafted by the people's deputies, the Cabinet of Ministers of Ukraine and other public authorities.

Regulatory activities

Regulatory activities of the National Bank of Ukraine in 2014 were exercised in compliance with the Plan of Drafting Regulatory Acts of the National Bank of Ukraine for 2014 approved by Ordinance of the National Bank of Ukraine No. 649-p dated 13 December 2013. In accordance with the Plan of Drafting Regulatory Acts in 2014, the National Bank of Ukraine planned to elaborate 15 draft statutory instruments meeting the criteria for regulatory acts.

During the period of 2014, with the aim of ensuring fulfillment of the activities at an appropriate level, the National Bank of Ukraine took measures required while drafting regulatory acts, as well as measures on the relevant tracking of efficiency of the statutory instruments with regulatory nature and adopted by the National Bank of Ukraine in previous years.

Claim-related activities

In 2014, claim-related activities kept to be provided for. In particular, the National Bank of Ukraine, its structural departments and structural units filed 66 claims to the court for a total amount of UAH 2.9 billion during the year, of which one claim was dismissed, the others were either decided in favour of the National Bank of Ukraine or pending decision.

In 2014, there were brought 129 claims for a total amount of UAH 4.1 billion against the National Bank of Ukraine, its structural departments and structural units filed, where 14 claims were satisfied for a total of UAH 0.3 thousand, the rest were decided in favour of the National Bank of Ukraine or pending decision.

The National Bank of Ukraine was involved in 163 cases by the courts as a third party mainly in relation of claims of the customers against the banks on invalidation of loan agreements and security agreements, refunding of deposits.

4.2. IMPROVEMENT OF BOOKKEEPING AND FINANCIAL STATEMENTS OF BANKS

Over the course of 2014, the National Bank of Ukraine was performing the work regarding further improvement of methodological basis of bookkeeping and financial statements of the banks in compliance with the requirements of International Financial Reporting Standards (hereinafter referred to as the "IFRS"). Key assignments remained to provide users of the financial statements of the banks with clear, true and unbiased information about the financial standing, financial results of activities, cash flow and changes in equity of the banks of Ukraine.

Performed work was intended for harmonization of methodological basis of bookkeeping with the key provisions of the European Union law, settlement of accounting of bank operations pursuant to the provisions of the Ukrainian law and amendments made to IFRS, improvement of requirements to disclosure of the information in the financial statements.

In 2014, with the aim of improving existing procedures for accounting of bank operations and ensuring development of financial statements according to IFRS, there was established the list of costs for sale of collateral while forming provisions against credit operations of the banks in order to include the cost of collateral in future cash flows. There were settled the issue of presenting problem assets in the accounting documents, which the bank took possession of through exercising the right of a collateral holder for the purpose of its further sale as well as the issue of valuation for accounting of the property transferred into the ownership of the bank as the collateral holder and kept for the purpose of future sale.

The banks, which made and published financial statements before 2012 according to IFRS, were provided with the right to make notes to the financial statements in the format checked by the external auditor and corresponding to the requirements of information disclosure under IFRS.

Moreover, the National Bank of Ukraine actively participated in reviewing material amendments to the Tax Code of Ukraine in terms of a new procedure for calculating the taxation object on the basis of financial result (profit/loss) before taxes, established by the banks in their financial statements pursuant to IFRS.

4.3. STATISTICS AND REPORTING

During the course of 2014, in order to fulfill the functions set forth in the Law of Ukraine *On the National Bank of Ukraine*, there were taken measures on methodological support and preparation of monetary and financial statistics, as well as

on organization of statistical reporting, submitted to the National Bank of Ukraine, in compliance with the international standards of statistics and with due account of the best practice of central banks of the countries across the world.

In the reporting year, the National Bank of Ukraine attended to the improvement of methodology for statistics compilation in monetary and credit statistics. In particular, calculations of indicators of balance sheet statements were improved in terms of economy sectors by financial operations (flows) according to IMF methodology on monetary credit and financial statistics.

Within close cooperation with the banks and associations of the banks the work was done on improvement of the system for organization of statistical reporting submitted to the National Bank of Ukraine. In particular, for the purpose of decreasing burden on suppliers of statistical reporting, there were reviewed the list of forms, their structure, drafting procedure and procedure for information submission.

There was ensured cooperation with the State Statistics Service of Ukraine, National Commission for the State Regulation of Financial Services Markets of Ukraine and the National Securities and Stock Market Commission with regard to exchange of information and improvement of monetary and credit as well as financial statistics compiling.

On the basis of the data of the National Bank of Ukraine, banks and other financial corporations there was ensured compilation of the monetary and credit, financial statistics and statistics of financial soundness. Particularly, there were drafted balance sheet statements by sectors of economy and on the basis of the overview of the financial corporations sector and its sub-sectors (the National Bank of Ukraine, other depository corporations (banks), other financial corporations), monetary aggregates, indicators on credits, deposits, securities and interest rates with the split by sectors of economy, types of economic activities, terms of repayment, currencies, regions.

There was extended the term for preparing the data on securities, excluding shares issued by the residents, split by the sectors of economy of the issuers, by types of securities and types of currencies with due regard to the IMF and ECB methodology, as well as the data on financial accounts in the financial corporations sector and its sub-sectors in order to present them to the State Statistics Service of Ukraine pursuant to the Plan of State Statistic Surveys so that to ensure compilation of the national accounts.

During the year, the IMF Special Data Dissemination Standard was ensured to be observed in terms of preparation and dissemination of the data and metadata by indicators of financial and foreign sectors of economy.

Statistical information was distributed in the Bulletin of the National Bank of Ukraine and on the pages of the Official Website of the National Bank of Ukraine, and

the IMF was provided with the reporting on monetary and credit as well as financial statistics, statistics of financial soundness for further distribution in the statistical book “International Financial Statistics”, on the website of IMF “Financial Soundness Indicators”, and on the IMF Dissemination Standards Bulletin Board.

4.4. ECONOMIC ANALYSIS, FORECASTING, SCIENTIFIC RESEARCH

Forecasting

In 2014, the National Bank of Ukraine kept developing the system of analysis and forecasting, namely, there were significantly improved both organizational approaches and technical instruments (methods and models) applied for the development of forecasts.

Forecasting system at the NBU, which is also inherent to many leading central banks, is based on the medium term macroeconomic model as the main forecasting model and on a set of additional models, mainly short-term ones.

Currently a basic model for a medium term forecasting at the NBU is represented by a semi-structural macroeconomic model (Quarter Forecasting Model (QFM)), based on the elements of New Keynesian Paradigm and adequately reflecting peculiarities of both transmission mechanism of the monetary policy in Ukraine and other peculiarities of the domestic economy with high level of indicators aggregation. Technical possibilities of the environment of the model offer sufficient satisfaction of the needs of the decision-making procedure on monetary policy, namely, the possibility to develop scenarios, assess impacts of one or several macroeconomic shocks, consider expert judgments while forecasting.

Currently, the NBU is testing a more up-to-date dynamic stochastic general equilibrium model, which becomes more and more popular among central banks for practical monetary tasks. Similar models are also based on the New Keynesian Paradigm which is a step forward as compared with QFM as they significantly extend the representation of economy through direct showing of the principles of functioning of key economic agents in the model with inherent peculiarities on the microeconomic level. This will allow to better reflect the structural peculiarities of the Ukrainian economy and to increase a number of possibilities for assessment of economic shocks.

A short-term forecasting system was also significantly improved through building and setting the process for the use of vector autoregressive models with many variables, which considerably extends the degree of forecast reliability.

During 2014 there were numerous assessments of the impact of change in the exchange rate on consumer prices, banking and real sectors. Problem indebtedness model was developed. The model allows assessing changes in the degree of negatively classified indebtedness for particular types of credit portfolios (both in the national and foreign currencies for individuals and economic entities) depending on the forecast of macroeconomic variables. Results achieved using model calculations were used for stress-testing 35 largest banks in 2014.

Research

In the reporting year, the National Bank of Ukraine continued questioning chairpersons of the companies concerning their business expectations. There was also introduced the monthly survey of the financial sector analysts (professional forecasters).

In 2014, within the framework of the work on scientific grounding of directions of rehabilitation of the financial sector of Ukraine and improvement of its soundness in the post-crisis period, the National Bank of Ukraine researched the following:

- grounding of major approaches regarding identification of systematically important banks as well as their regulation and supervision over them;
- grounding of recommendations regarding implementation of the world practice for establishment of system risks in a non-banking financial sector of Ukraine and the volume of shadow banking in Ukraine;
- grounding of proposals regarding stimulation of the development of the market of long-term hryvnia resources and improvement of management of the cash circulation at the current stage.

To improve the potential of the National Bank of Ukraine in terms of efficient servicing of the society the following scientific research was conducted:

- development of grounded proposals regarding recovery of trust to the banking system and ensuring its reliable functioning;
- generalization and systematization of the processes of transforming functions and role of the central banks of the leading world countries in the present context;
- grounding of approaches to improvement of the communication policy of the National Bank of Ukraine;
- development of proposals to increase efficiency of the monetary policy while switching to the inflation targeting mode;
- regarding particular macroprudential instruments (LTV, DSTI, CCB) (essence, experience of the countries of the world and challenges before the National Bank of Ukraine in case of the introduction of the aforesaid instruments);

– regarding efficiency of the revenues to the State Budget of Ukraine from income tax obtained by individuals in the form of interests accrued on bank deposits and impact of its application on liquidity of the banking system.

For the purpose of identification and mitigation of threats to the financial system the world experience of regulation and supervision over the financial sector was studied.

During the reporting year the Center for Scientific Research developed the project Strategy for Improvement of the Level of Financial Literacy of the People in Ukraine subject to technical support of USAID – Financial Sector Development (FinRep). Considerable attention was paid to the scientific grounding of the Financial Sector Development Strategy and Strategic Program for Development of Non-Cash Retail Payments in Ukraine for 2012 to 2014.

Grounded practical recommendations to the improvement of effectiveness of the banking system of Ukraine in the context of integration processes were presented in the following monograph: "Banking System of Ukraine during European Integration" (auth. col.; edited by S.A. Bukovynskyi) the National Bank of Ukraine. Center for Scientific Research. – K.: UBS NBU, 2015. – p. 496.

Over the course of the year, the National Bank of Ukraine took a number of measures with the participation of international financial organizations on discussion of problem issues in scientific research and development of practical recommendations as to development of financial system of Ukraine.

4.5. INTERNATIONAL COOPERATION

Cooperation with the International Monetary Fund (hereinafter referred to as the "IMF")

Cooperation with IMF, which is one of the key partners of Ukraine, is an important element for formation of the investment climate in our country, as well as the indicator for relationships with other international financial organizations and foreign investors.

According to Decree of the President of Ukraine No. 1809/2005 dated 19 December 2005 “On Ensuring Representation of Ukraine at the Boards of Governors of the International Monetary Fund and the World Bank”, the Governor of the National Bank of Ukraine by position is a Governor from Ukraine at the Board of Governors of the International Monetary Fund, the highest body of the organization.

During 2014, Ukraine took active part in the events of IMF as a member state. In particular, there was ensured participation in Annual and Spring Meetings of the International Monetary Fund and the World Bank as well as in the meetings of the

Group of IMF Member States, Ukraine is included in, and chaired by the Netherlands. The ways of further development and activities of IMF as well as urgent issues related to development of the world financial system and economy in general were discussed at the meetings.

One of key events of the bilateral cooperation with IMF in 2014 was approval of the new Stand-by Program for Ukraine by IMF Executive Board on 29 April 2014. It was a strong signal of support from the point of view of the politics and economy for our state and for the world in general.

The program provided for deep structural transformations of the Ukrainian economy in such spheres as monetary, currency and exchange and fiscal policy, financial sector, energy sector as well as improvement of the state government, strengthening transparency and improvement of the business climate.

The new program fundamentally differed from the previous programs both in terms of depth of provided reforms and intensity of the dialogue between Ukraine and IMF.

Within the framework of the Program Ukraine received two tranches in 2014: SDR 2.058 billion, or USD 3.2 billion, in May and SDR 915 million, or USD 1.4 billion, in September 2014. The aforementioned funds were subject to sharing between the National Bank of Ukraine and the Ministry of Finance of Ukraine.

In autumn 2014 there started the second review of Ukraine's fulfillment of the Program terms and conditions. In general, IMF positively assessed the steps made by our state on this way. At the same time, at the end of the year the results of the economic situation assessment made it clear that the program failed to meet the realities and needs of Ukraine. Thus, the parties commenced technical discussions regarding replacement of the effective program by a new one within the framework of the Extended Fund Facility (EFF).

Cooperation with the World Bank

Cooperation with the World Bank is one of the efficient mechanisms helping Ukraine to implement structural reforms and receive preferential loans for its economy.

The National Bank of Ukraine cooperated with the World Bank in 2014 within the framework of the Partnership Strategy between Ukraine and the World Bank for 2012 to 2016, namely, in terms of cooperation for the purpose of development of the financial sector of Ukraine.

The National Bank of Ukraine jointly with the Government of Ukraine developed the project of the First Programmatic Financial Sector Development Policy Loan jointly with the World Bank, namely, in terms of improving the solvency of the banking system, strengthening legal and institutional basis for improvement of soundness and

efficiency of the banking system, improvement of capability of the Deposit Guarantee Fund to regulate insolvent banks.

Based on results of the work on preparation of this project Ukraine received USD 500 million in September 2014 used for financing the general fund of the State Budget of Ukraine.

After completion of preparation of this project both Ukraine and the World Bank immediately started developing preparatory measures for a new project Second Programmatic Private Financial Development Policy Loan. In 2014, the National Bank of Ukraine ensured fulfillment of the measures provided for in the project for its successful preparation, which would also allow Ukraine to receive USD 500 million to support its State Budget.

Furthermore, over the course of 2014 for the appropriate preparation of the aforementioned projects the National Bank of Ukraine engaged expert and technical support of the World Bank.

Within the framework of Ukraine's participation in the events of the World Bank as the member state of this organization, the National Bank of Ukraine took part in Annual and Spring Meetings of the International Monetary Fund and the World Bank as well as in the meetings of the Group of World Bank Member States, Ukraine is included in, and chaired by the Netherlands.

Cooperation with the European Bank for Reconstruction and Development (hereinafter referred to as the "EBRD")

EBRD was and remains one of the leading investors in Ukraine, which substantially supports economic reforms in the country and whose investments are of a comprehensive nature.

In order to ensure soundness of the banking system the National Bank of Ukraine actively cooperated with EBRD by raising support of EBRD to improve the processes of restructuring of the banks, analysis of results of stress-testing reports of the banks and development of required legislative and regulatory provisions.

Within the framework of implementation of joint intentions on development of capital markets in Ukraine the National Bank of Ukraine together with the Ministry of Finance of Ukraine and EBRD cooperated in 2014 while drafting the Memorandum of Understanding, which shall set out directions of cooperation for the development of the local market of capital in Ukraine and the measures that would be supported with EBRD support.

During 2014 cooperation with EBRD was also within the framework of ensuring performance of Ukraine's functions as EBRD member. Thus, the National Bank of Ukraine participated in EBRD Annual Meeting of the Board of Governors held on 13

through 16 June 2014 in Warsaw (Poland) at which they considered the issues of increase of the volumes of annual investments of EBRD in Ukraine, technical support within the framework of multilateral donor Fund of Technical Aid to Ukraine, commencement of issue of EBRD domestic loan bonds denominated in hryvnias, as well as general issues related to EBRD activities.

Cooperation with the Black Sea Trade and Development Bank (hereinafter referred to as the "BSTDB")

Ukraine is one of the countries that founded BSTDB whose resources are used for financing regional projects and facilitation of developing private and business activities in the member states.

According to Decree of the President of Ukraine No. 181/2002 dated 26 February 2002 “On Ensuring Membership of Ukraine in the Black Sea Trade and Development Bank”, the National Bank of Ukraine appointed Deputy Governor from Ukraine to the BSTDB Management Board. Within the framework of performing functions of the Deputy Governor from Ukraine the National Bank of Ukraine took part in two official events of BSTDB over the course of 2014.

Actions of the National Bank of Ukraine in European integration

The National Bank of Ukraine plays a special role in the European integration process of Ukraine. One of its key assignments in this process is bringing the banking system of Ukraine, which is the basis of the market infrastructure of the country’s economy, in compliance with the EU rules and standards.

The key issue in the area of European integration in 2014 was the preparation to the implementation of the Ukraine–European Union Association Agreement whose conclusion would allow moving to a new level of relations with EU. The National Bank of Ukraine actively participated in drafting of the Action Plan for Agreement Implementation, which was approved by Ordinance of the Cabinet of Ministers of Ukraine No. 847-p dated 17 September 2014 and ensured fulfillment of the measures provided for in the Plan.

Furthermore, during 2014 the National Bank of Ukraine successfully implemented the measures of the EU-Ukraine Association Agenda.

For the purpose of raising the second macro-financial aid of EU in the amount of EUR 1 billion to stabilize the financial and economic system of the country the Governor of the National Bank of Ukraine signed the relevant Loan Agreement and Memorandum of Understanding between Ukraine and EU in May 2014 within the powers granted to him. The National Bank of Ukraine ensured fulfillment of the terms for provision of two tranches of that aid (EUR 1 billion) and three tranches (EUR 360 million) of the first macro-financial aid of EU in the amount of EUR 610 million, which

allowed revenues to the State Budget of Ukraine for a total amount of EUR 1.36 billion in 2014.

In addition, the National Bank of Ukraine ensured fulfillment of the National Plan of Measures for the second phase of the Action Plan on EU Visa Regime Liberalization for Ukraine.

In 2014, the National Bank of Ukraine took part in the meeting of Subcommittee No. 3 "Enterprise Policy, Competition, Regulatory Cooperation" during which there was efficient dialogue with the EU in terms of topical issues of cooperation between Ukraine and EU in the regulatory sphere.

For the purpose of using best world and European banking practices to increase efficiency of its work the National Bank of Ukraine implemented the measures in 2014 on raising external aid of the European Union both within the framework of launching a new project of EU's aid in financial services and TAIEX institutional building tool.

Moreover, in 2014 the National Bank of Ukraine enhanced the dialogue with the European Central Bank for the purpose of extending cooperation and promoting engagement of the National Bank of Ukraine in the ECB events.

Cooperation with MONEYVAL

In 2014 as requested by the State Committee for Financial Monitoring of Ukraine and according to the results of third stage of assessment of Ukraine the National Bank of Ukraine provided materials on current condition and improvement of the system for prevention and counteraction to legalization (laundering) of proceeds from crime or terrorist financing at the Plenary Meetings of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

Within the framework of preparation to holding of the second stage of assessment of Ukraine concerning prevention and counteraction to legalization (laundering) of proceeds from crime or terrorist financing, as well as assessment of strengthening of the financial integrity by coverage of financial services the National Bank of Ukraine provided the information to the State Committee for Financial Monitoring of Ukraine to fill in the MONEYVAL Questionnaire.

The representative of the National Bank of Ukraine within the governmental delegation of Ukraine took part in 45th Plenary Meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

Cooperation of the National Bank of Ukraine with central banks and banking institutions of other countries

During 2014 the National Bank of Ukraine continued the work on ensuring bilateral international cooperation to establish and expand international connections, represent interests of Ukraine at central banks of other countries, implement advanced experience to ensure development of the banking sector of Ukraine, develop positive image of Ukraine in the world community and improve its investment attractiveness. Regional vector included the countries in Europe, Asia, America, and cooperation was ensured via visits, negotiations, meetings, participation in international events, and implementation of projects for international technical and expert support.

Thus, in 2014 the representatives of the National Bank of Ukraine took part in over 530 bilateral meetings with the representatives of central banks, diplomatic institutions of other countries, foreign banks and their representative offices, international organizations. They also participated in more than 250 international events. There continued the work of joint bilateral intergovernmental committees, as well as meetings and negotiations regarding the execution of international agreements, particularly, in terms of encouraging and securing investments.

4.6. COMMUNICATION POLICY

Communication policy

Profound changes in Ukrainian society and ambitious reforms of the banking system require public support for the actions taken by the government and the National Bank of Ukraine. That is why communication with the market and members of the public has become so important. A key element in maintaining trust in the banking system was enhancing the transparency of NBU actions and easing access to banking sector data as much as possible.

Cooperation with the mass media

Understanding the great importance of the media in communicating information to as many users as possible, the National Bank cooperated more closely with the mass media in 2014. Among other things, it

- responded to 830 inquiries made by journalists;
- organized 44 interviews with its top management;
- published 289 official press releases covering internal and external developments, the focal points of monetary policy, and its own initiatives;
- held 147 events, such as briefings, press conferences and rounds tables.

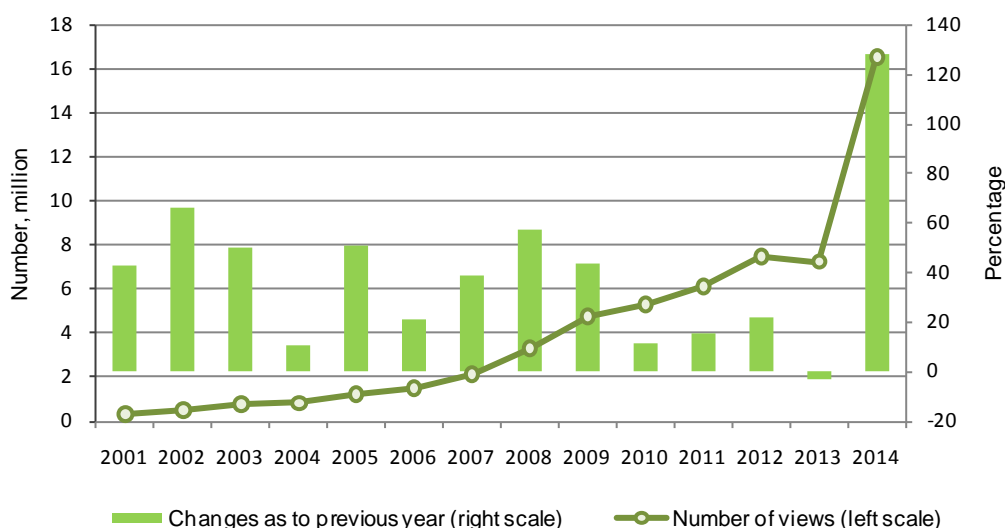
The National Bank also continued the effective practice of organizing information days for mass media representatives with the purpose of establishing professional communication and holding a continuous dialogue with leading economic journalists.

Digital communication

With financial markets being highly volatile, market participants increasingly require quick access to up-to-date information in order to be able to make informed decisions. Communicating information via the official NBU Web site has proved to meet this need most effectively. It is on its Web site that the NBU has been making public its latest decisions and posting various macroeconomic and banking indicators, new laws, as well as other information. All these data are high quality, and appear on the web site on a timely basis.

The usefulness of this communication channel is evidenced by users' growing interest. In fact, the year 2014 saw a significant increase in the number of people that visited the page (the page was visited by 5 million users), and the total number

Figure 22. Dynamics of the official NBU web-site traffic



of people that visited the page (the page was visited by 5 million users), and the total number of views (17 million) was 129% higher than in 2013.

Overall, in 2014, the National Bank posted over 100,000 pieces of information on its official Web site.

The rapidly growing volumes of information posted on the NBU site and public interest in the site mean that there is a need to modernize and develop the site. With that in mind, the National Bank modified many sections, eased public access to important indicators, and increased the level of intuitive navigation.

The news section contains announcements and press releases, which are posted in a timely manner and explain the rationale behind NBU regulatory actions; the direct

speech section covers interviews given by the central bank's representatives to the mass media; and the public council section tells about any success the central bank has achieved in establishing constructive dialogue with society

The communication unit both developed years-old-instruments and invented new ones. In 2014, it created a Facebook page for the National Bank in Ukraine, enabling the central bank to communicate its decisions to the public, especially journalists, on a timely basis. The National Bank also used the page to interact with the network's users, enabling the latter to respond to urgent issues which are of great concern to the general public. Overall, the National Bank posted 334 pieces of information on its Facebook page. About 10,000 users liked the page, while half a million users visited the page. The National Bank also posted 63 videos on YouTube, which were viewed by 23,000 users.

Public Council

In 2014, the National Bank, for the first time in its history, created a special platform for communicating with members of the general public – the Public Council. The purpose of the council is to facilitate interaction between the National Bank and the general public, and to help protect the rights and interests of banking service users, in particular via suggestions as to how to streamline Ukrainian laws made by the Public Council. NBU Board Resolution No. 335, dated June 5, 2014, established the Public Council. On June 16, 2014, the initiative group to create a public council ruled in a protocol of its meeting that the Public Council should consist of 15 members who would serve for two years. The Public Council consists of four banking union and association representatives, one Household Deposit Guarantee Fund representative, and ten public organization representatives. The council members set up five commissions to address the following issues:

- hryvnia stabilization;
- foreign currency loans;
- banking system reforms;
- insolvent banks;
- payments to individuals.

The Public Council is a good opportunity for people who have initiative and the right education to exercise their constitutional right to participate in state management by contributing to the preparation of draft resolutions, taking part in public discussions about banking business and protection of the rights and interests of bank clients, as well as by putting into place effective tools to protect the rights of banking service users.

One of the council's major achievements in 2014 was drawing up a memorandum to restructure foreign currency consumer loans between banks, members of the general

public and the National Bank of Ukraine. Currently work is under way to resolve the issue.

Meetings with bankers

The National Bank has been having a constructive dialogue with the banking community – every week NBU representatives discuss with the top management of the 40 largest banks in terms of asset size ways to resolve the problems and challenges facing the financial sector. Decisions taken at these meetings are communicated to the general public in a timely matter.

Apart from that, the National Bank closely cooperated with central government public relations organizations, units responsible for financial market regulation and Ukrainian banks, in order to ensure that all journalists have a clear and equal understanding of NBU regulatory decisions.

Changes at the National Bank of Ukraine

In 2014, with a view to enhancing its capabilities as a regulator, the National Bank started to reform its own structure. The main focus was on:

- simplifying the central bank's organizational structure and bringing staff numbers to a justifiable level;*
- centralizing management and restructuring all processes;*
- concentrating on the bank's key functions and enhancing the effectiveness of decision making;*
- reducing the hierarchical levels of the bank's main office and making cooperation between its units more effective;*
- improving the bank's auxiliary and non-core functions;*
- improving the structure of the bank's regional offices.*

The bank's organizational structure will be reformed in several stages. The first preparatory stage, which ended in November 2014, saw an in-depth analysis of the existing NBU structure, functions and processes, as well as consultations with international organizations, missions, and leading foreign and domestic experts. Overall, more than 100 central bank organizational structures were analyzed.

Based on these results, the NBU approved a target structure of first-level subordination to the governor/deputy governors, introduced administrative and functional subordination and management, subordinated NBU regional offices to the relevant main office units, and finalized proposals regarding changes to the organizational structure of main office units.

Currently the second stage is in progress – the National Bank is introducing a new organizational structure at its main office. Replacing a hierarchical management structure with a function-oriented one will enhance the central bank's effectiveness and flexibility, and will increase its ability to deal with new challenges. Together with these changes, the National Bank is carrying out a complete review of its functions and bringing its staff number to a justifiable level. Centralizing management at the main office level and reorganizing all processes are expected to enhance the effectiveness of the central bank's supervisory and regulatory functions. In December 2014, the National Bank started appointing heads of its new structural units, approving finalized lists of staff, transferring staff members to the new structural units, and transferring functions from the old to the new structure.

The third stage, which involves changing the structure of regional offices, is to begin in early 2015. At this stage, four regional management centers will be created - the eastern, central, western and southern ones - with headquarters in

Dnipropetrovsk, Kyiv, Lviv and Odesa. Each of the centers will be responsible for several oblasts, and will perform most managerial functions. Existing regional offices will remain responsible for cash supply and collection. The improved structure of regional offices is expected to decrease the number of staff who perform non-core functions, and to focus more on NBU key functions in the regions.

The third stage will finalize the optimization of the auxiliary and non-core functions of the NBU's main office. Any functions other than those set forth in Ukrainian law will be cancelled, delegated to other institutions, or outsourced.

The National Bank will also bring its staff numbers to a justifiable level, in particular those responsible for non-core or auxiliary functions. The number of regional office and structural unit staff will be decreased by almost two times, while that of main office staff will decrease by one third. NBU educational institutions will be transferred to Ukraine's Ministry of Education and Culture. While effecting these changes, the National Bank, as an employer, will comply with all applicable laws and fulfill all obligations to its employees.

4.7. HUMAN RESOURCES POLICY

In 2014, one of the principal points of focus of HR policy was reforming staff management as part of the functional and structural changes launched by the National Bank.

New approaches to recruitment

The National Bank has revised its recruitment approaches:

any vacancies are now being filled with successful contestants from the banking and financial labor markets;

new recruitment channels have been introduced. These include employment sites, direct search for employees, and social networks;

The National Bank has also introduced integrity checks.

As of 1 January 2015, the number of NBU staff members was 8 887 persons.

Table 13. Number of NBU staff as of 1 January 2015

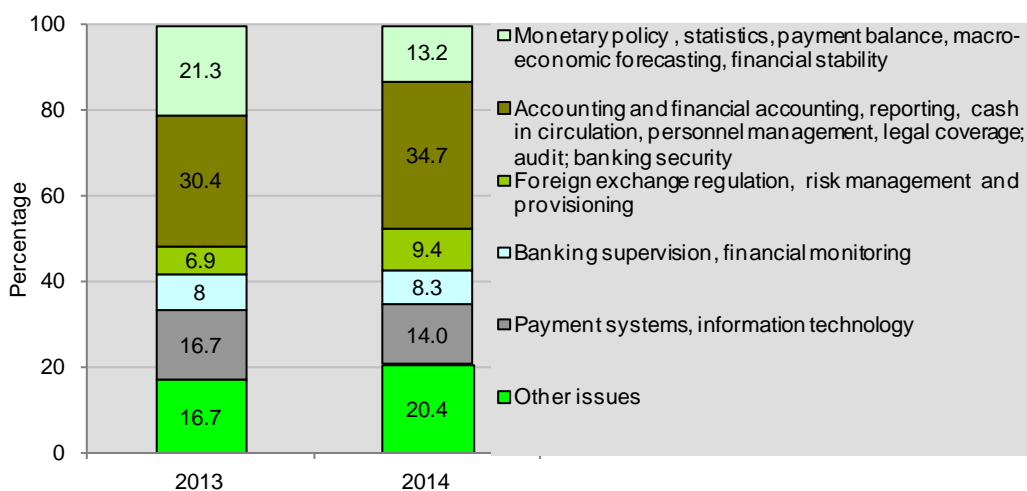
Staff members	Total persons	%	with a university degree,%	of which women,%
Managerial staff	1,926	21.7	90.2	43.4
Professionals	3,764	42.4	94.2	62.6
Experts	150	1.7	51.3	55.3
Technicians	633	7.1	40.6	49.0
Workers	2,414	27.2	18.4	25.6
Total	8,887			
Including:				
Doctorate and PhD degree holders	134			
Average age of staff, years	43.4			

Training NBU staff and raising their professional skills

With the view of enhancing the effectiveness of Ukraine's banking system, the National Bank has launched various staff development programs aimed at maintaining/raising their professional skills. These programs are designed for both NBU and other bank staff.

In 2014, the National Bank, together with other institutions, organized 1 164 training events (seminars, conferences, courses, practical training, etc.), of which 118 events were held abroad. Overall, 8 802 people participated in the events, of which 6 495 were NBU staff members and the rest were staff members from other banks and institutions.

Figure 23. Structure of topics for trainings in 2013 - 2014 in Ukraine and abroad



The training events took place in the NBU training facilities, educational institutions, NBU regional offices and structural units, on the job, in Ukrainian institutions and organizations, as well as abroad in other central banks and international organizations.

In 2014, the National Bank spent UAH 6,640.9 thousand on staff training.

Library collection

The National Bank also has large library collection of professional literature and unique documents. In late 2014, the collection comprised 87,979 publications, covering mostly such topics as finance, business, banking, HR management, and social science. The NBU library is one the largest libraries in Ukraine.

Educational Institutions of the National Bank of Ukraine

The educational institutions of the National Bank of Ukraine continue to be in the lead in training highly-qualified staff for Ukraine's financial and credit sector, ensuring their high competitive ability in the economy sector.

As of 1 January 2015, the institutions were training 5,621 persons in all areas of study and majors. In 2014, 1,748 persons graduated from the institutions (of which 1,261 were full-time students and 487 were part-time students). 88.7% of the graduates had been employed by early 2015, of which 52.1% had found jobs in the banking sector.

Enhancing the financial literacy of the general public

Ukraine, like many other countries, has introduced the practice of enhancing the financial literacy of the general public. It has become one of the NBU's top priorities, as people are the main investors in the banking system, and ultimately, the economy. The central bank's focus on this issue is expected to increase public confidence in the banking sector and the National Bank as a regulator.

Understanding the importance of the public's financial literacy, as well as that of ensuring the protection of financial services consumers, in 2014, the National Bank started developing a 2015-2019 strategy to enhance the financial literacy of the general public.

In August 2014, the National Bank and USAID/FINREP-II launched a joint initiative to develop a national financial literacy Web site. Ukraine's Economic Development and Trade Ministry, the Ministry of Finance, the Education and Science Ministry, the Social Policy Ministry, the State Fiscal Service, the Deposit Guarantee Fund, the Pension Fund, the Association of Ukrainian Banks, the State Committee for Financial Services, and the National Commission for Securities and the Financial Market also joined in. They established a force task which approved the concept of the site, an action plan, target groups, ways to ensure people visit the site repeatedly, as well as discussed the marketing plan and ways to seek expert advice. Currently work is under way to put content onto the site.

In implementing the action plan to enhance the financial literacy of the general public for the latter half of 2014, the National Bank, for the second time, held the All-Ukrainian Financial Literacy Week. The event was launched on 3 November and was extended until the end of the month. It also continued World Savings Day, which was marked on 31 October. The aim of the All-Ukrainian Financial Literacy Week and World Savings Day was to draw public attention to the importance of enhancing the financial literacy of Ukrainians and to promote the public's prudent and responsible behavior in handling their own financial affairs.

The main focus of the events was on stressing the need to keep a record of family finances, explaining basic accounting principles, as well as encouraging people to save and invest money in order to ensure financial stability in the future. The National Bank proposed covering these particular issues because they present the most difficulties for Ukrainians. Indeed, the latest polling data show that only 18% of Ukrainians keep a full record of their income and expenses, 15% do it in part, and only about 13% make savings.

The events were held jointly with public organizations, professional

associations, banking and financial institutions, commercial companies, central and local governments, school and university teachers, city and district libraries, etc. NBU regional office staff played an active role in preparing and holding the events in all regions.

As part of the All-Ukrainian Financial Literacy Week, the National Bank

- developed guidance and plans for holding educational events targeted on various age and social groups, as well as their interests. When the events were being held, about 200 institutions and organizations sought advice and guidance materials from the National Bank;

- held a financial literacy quiz on 6-17 November, in which 1,943 people participated (63 of them answered all questions correctly). It also prepared certificates of appreciation and medals to be awarded to winners and gifts for those participants who answered all questions correctly;

- gave two open lectures (in Kyiv's No. 19 Mezhyhyria Gymnasium and the Kyiv Water Transport Higher Technical School) to promote making regular savings and keeping a record of one's own income and expenses;

- invited students of the Kyiv Water Transport Higher Technical School to visit the NBU Money Museum;

- jointly with USAID/FINREP-II, held a contest for the best SAVINGS video, which took place from 31 October through 28 November, and in which students doing financial literacy courses at Ukrainian educational institutions participated. The contest aimed at deepening the understanding of the importance of savings in achieving one's own financial goals.

Ukraine's first regional financial literacy contest for school students took place in Dnipropetrovsk as part of the All-Ukrainian Financial Literacy Week. It was organized by Ukraine's Ministry of Education and Science, the Verkhovna Rada Finances and Banking Committee, the National Bank of Ukraine, the NBU Banking University (city of Kyiv), the Innovation Technology and Education Institute, Dnipropetrovsk regional council, the Education and Science Department of Dnipropetrovsk Regional and City State Administration, and Dnipropetrovsk's Alfred Nobel Regional Post Graduate Studies Institute. The contest was financed by USAID/FINREP-II. The jury consisted of leading scholars from higher educational institutions in Kyiv, Dnipropetrovsk, Kharkiv and Cherkasy, as well as experienced methodologists. Student teams from schools that launched a 2012 pilot educational project to enhance the financial literacy of young Ukrainians competed in the contest.

Overall, according to NBU estimates, based on reports submitted by NBU

regional offices, about 226 000 Ukrainians took part in seminars, lectures, school lessons, interactive lessons, and open door days. This number exceeded last year's figure by over ten times – in 2013, about 20 000 Ukrainians participated in the events held as part of the financial literacy week and World Savings Day.

The National Bank will continue to be involved in efforts to enhance the financial literacy of the general public, which are expected to:

- make financial products and banking services more transparent;

- increase confidence in the banking system;

- ensure sufficient money inflows to financial markets;

- broaden the understanding of how financial instruments work and facilitate the use of financial instruments in making sound decisions when dividing income into savings and investments, which should promote Ukraine's financial resilience and increase people's financial wealth;

- create a financial culture among all age groups, from schoolchildren to retirees.

The National Banks appreciates and supports the initiatives of all those interested in raising the financial wealth of Ukrainians.

4.8. AUDITS OF THE NATIONAL BANK OF UKRAINE

In 2014, 197 audits of risk management and internal control over the major activities of NBU structural units were conducted. These included 26 comprehensive audits, 165 focused audits with 14 principal points of focus, and 6 surprise audits of cash and other valuables. Apart from that, three unscheduled audits were delivered at the request of the NBU top management. Overall, 72.5% of NBU structural units were involved in audits.

The audits were conducted in accordance with the 2014 audit plan for NBU structural units, which was drawn up on the basis of a risk-oriented approach to audits and approved by a decision of the NBU Council.

Under the International Standards for the Professional Practice of Internal Auditing set forth and published by the Institute of Internal Auditors, every audit:

– assessed how the identified non-compliance, deficiency and problem issues may have influenced the risks particular to the NBU units where audits were conducted, taking into account their causes and importance, as well as whether or not they were identified during previous audits;

– evaluated internal controls, and whether or not the guidance given during previous audits was being followed in full;

– provided structural units with guidance as to how to manage risks and improve existing internal control processes;

– checked how structural units were incorporating this guidance.

In compliance with the recommendations the IMF gave after conducting a safeguards assessment, the National Bank:

– conducted audits on the dates specified in the Memorandum of Understanding with the IMF, and submitted reports on NBU net international reserves and net domestic assets;

– involved certified auditors from De Nederlandsche Bank, which were approved by IMF staff, in an independent external audit of the NBU internal audit unit.

Under Ukraine's Law On the National Bank of Ukraine, the relevant NBU bodies reported to the NBU Council and the NBU governor twice during the reporting year on the progress achieved.

Governor



Valeria Gontareva

**CONSOLIDATED FINANCIAL
STATEMENTS
or the year that ended 31 December 2014**

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Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the National Bank of Ukraine and its subsidiaries as at 31 December 2014, and the consolidated results of its operations, cash flows, and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:


- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial position and financial performance of the National Bank of Ukraine and its subsidiaries;
- Stating whether IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Making an assessment of the ability of the National Bank of Ukraine and its subsidiaries to continue as a going concern in the foreseeable future.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the National Bank of Ukraine and its subsidiaries;
- Maintaining adequate accounting records that are sufficient to show and explain the transactions of the National Bank of Ukraine and its subsidiaries and disclose with reasonable accuracy at any time the consolidated financial position of the National Bank of Ukraine and its subsidiaries, and which enable them to ensure that the consolidated financial statements of the National Bank of Ukraine and its subsidiaries comply with IFRS;
- Maintaining statutory accounting records in compliance with the legislation of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the National Bank of Ukraine and its subsidiaries; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the National Bank of Ukraine and its subsidiaries for the year ended 31 December 2014 were approved and authorized for issue by management of the National Bank of Ukraine on 9 April 2015.

On behalf of the Board of the National Bank of Ukraine:


V. O. Gontareva,
Governor

9 April 2015


B. V. Lukasevych,
Chief Accountant – Director of Accounting Department

9 April 2015



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INDEPENDENT AUDITOR'S REPORT

To The Council and the Board of the National Bank of Ukraine:

We have audited the accompanying consolidated financial statements of the National Bank of Ukraine and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

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Emphasis of matter

We draw your attention to Note 4 to the consolidated financial statements. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the National Bank of Ukraine and its subsidiaries. Our opinion is not qualified in respect of this matter.

Other matters

The consolidated financial statements of the National Bank of Ukraine and its subsidiaries for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 8 April 2014.

Deloitte & Touche

9 April 2015

Certified Auditor



Natalia Samoilova

Certificate of Banks' Auditor No. 0202
issued by the Audit Chamber of Ukraine on 24 December 2014 by Decision
of the Audit Chamber of Ukraine No. 304/2 and effective until 24 December 2019

PJSC "Deloitte & Touche Ukrainian Services Company"
Str. Zhylyanska, 48, 50a, Kyiv, 01033, Ukraine

Consolidated Statement of Financial Position as at 31 December 2014

	Notes	2014	2013 (in UAH millions)
Assets			
Funds and deposits in foreign currency and investment metals	<u>5</u>	17,338	58,125
Foreign securities	<u>6</u>	88,118	100,580
SDR holdings	<u>7</u>	59	128
Monetary gold		14,366	7,893
Domestic securities	<u>8</u>	330,774	154,134
Loans to banks and other borrowers	<u>9</u>	81,573	66,998
Internal state debt	<u>10</u>	2,180	2,268
IMF quota contributions	<u>11</u>	31,344	16,945
Property and equipment and intangible assets	<u>12</u>	7,196	7,231
Other assets	<u>13</u>	4,321	2,693
Total assets		577,269	416,995
Liabilities			
Banknotes and coins in circulation		304,811	261,870
Accounts of banks	<u>14</u>	28,895	47,432
Accounts of government and other institutions	<u>15</u>	14,648	4,036
Liabilities on profit distribution to the State Budget	<u>19</u>	61,803	11,886
Certificates of deposit issued by the National Bank of Ukraine	<u>16</u>	19,609	3,126
Liabilities to the IMF	<u>17</u>	65,615	31,140
Other liabilities	<u>18</u>	1,346	1,361
Total liabilities		496,727	360,851
Equity			
Statutory capital		100	100
General and other reserves		23,993	33,474
Revaluation reserves for assets and liabilities		56,420	22,542
Total equity	<u>20</u>	80,513	56,116
Non-controlling interest		29	28
Total equity		80,542	56,144
Total equity and liabilities		577,269	416,995

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 9 April 2015.

Governor

V. O. Gontareva

Chief Accountant – Director of
Accounting Department

 B. V. Lukasevych

The accompanying notes on pages from 134 to 206 form an integral part of these consolidated financial statements.

	Notes	2014	2013
		<i>(in UAH millions)</i>	
Interest income	22	37,629	21,331
Interest expense	22	(1,319)	(996)
Net interest income, before provisions	22	36,310	20,335
Net (increase)/decrease in provisions for loans to banks and other borrowers	27	(26,856)	538
Net interest income, less provisions		9,454	20,873
Fee and commission income	23	436	367
Fee and commission expense	23	(16)	(11)
Net fee and commission income	23	420	356
Gains/(losses) on operations with financial assets and liabilities in foreign currency and monetary gold		88,866	(3,988)
Gains on operations with debt securities at fair value		2,295	1,106
(Losses)/gains on operations with financial instruments, other than debt securities at fair value		(15)	3
Other income	24	538	436
Total net income		101,558	18,786
Staff costs	25	(2,248)	(2,238)
Costs related to production of banknotes, coins, souvenirs, and other products		(1,184)	(927)
Administrative and other expenses	26	(951)	(847)
Impairment of the NBU's assets located in temporarily occupied territories	12, 13, 18	(1,042)	–
Net increase in provisions for other assets	27	(52)	(1)
Profit before income tax		96,081	14,773
Income tax expense of subsidiaries		(1)	–
Profit for the year		96,080	14,773
Other comprehensive income/(loss) not to be reclassified subsequently to profit or loss:			
Revaluation of investment metals		1,042	(686)
Other comprehensive income/(loss) for the year		1,042	(686)
Total comprehensive income for the year		97,122	14,087
Profit for the year attributable to:			
National Bank of Ukraine		96,079	14,779
Non-controlling interest		1	(6)
		96,080	14,773
Comprehensive income attributable to:			
National Bank of Ukraine		97,121	14,093
Non-controlling interest		1	(6)
		97,122	14,087

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 9 April 2015. Governor

Chief Accountant – Director of
Accounting Department

V. O. Gontareva

Director of Finance Control Department

B. V. Lukasevych

O. V. Strynzha

The accompanying notes on pages from 134 to 206 form an integral part of these consolidated financial statements.

	Notes	2014	2013
<i>(in UAH millions)</i>			
Operating activities			
Profit for the year		96,080	14,773
Adjustments for:			
Depreciation and amortization	12	588	469
Net increase/(decrease) in provisions for assets	27	26,908	(537)
Adjustment of interest income on impaired loans to banks	9	1,979	(398)
Change in accrued income		(5,119)	(1,696)
Change in accrued expense		231	(107)
Gain on revaluation of debt securities carried at fair value		855	1,498
Unrealized (loss)/gain on revaluation of financial assets and liabilities in foreign currency and monetary gold		(88,969)	4,343
Impairment of the NBU's assets located in temporarily occupied territories		1,042	-
Other non-cash movements		9	21
Net cash inflow before changes in operating assets and liabilities		33,604	18,366
Net increase in loans to banks and other borrowers		(45,109)	(842)
Repayment of internal state debt	10	132	132
Net (increase)/decrease in other assets		(9,878)	298
Net decrease in other liabilities		(1,246)	(59)
Net cash (outflows)/inflows from operating activities before transfers to the State Budget of Ukraine		(22,497)	17,895
Cash transfers to the State Budget of Ukraine	19	(22,807)	(28,308)
Net cash outflows from operating activities		(45,304)	(10,413)
Investing activities			
Net decrease in term deposits placed		5,894	1,235
Net decrease in foreign securities		79,519	24,504
Purchase of domestic securities		(162,456)	(49,411)
Sale and redemption of domestic securities		14,438	1,669
Sale/(purchase) of monetary gold		848	(1,382)
Acquisition of subsidiary, net of cash received		-	(45)
Acquisition of property and equipment and intangible assets		(998)	(1,044)
Proceeds from disposal of property and equipment		5	10
Net cash outflows from investing activities		(62,750)	(24,464)

The accompanying notes on pages from 134 to 206 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2014 (continued)

	Notes	2014	2013 (in UAH millions)
Financing activities			
Issue of banknotes and coins in circulation		42,941	39,084
Repayment of liabilities to the IMF		(10,332)	(24,394)
Proceeds from the funds received under the IMF's loans		13,940	–
Net change in term deposits attracted		434	–
Net change in certificates of deposit issued by the National Bank of Ukraine		16,468	2,792
Net cash inflows from financing activities		63,451	17,482
Effect of changes in exchange rates on cash and cash equivalents			
		17,412	(2,239)
Net decrease in cash and cash equivalents		(27,191)	(19,634)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the reporting year	21	(1,515)	18,119
Cash and cash equivalents at the end of the reporting year	<u>21</u>	<u>(28,706)</u>	<u>(1,515)</u>

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 9 April 2015.

Governor



V. O. Gontareva

Chief Accountant – Director of
Accounting Department



B. V. Lukasevych

The accompanying notes on pages from 134 to 206 form an integral part of these consolidated financial statements.

Notes	Statutory capital	General and other reserves	Revaluation reserve for assets and liabilities	Total equity attributable to the NBU	Non-controlling interest	Total equity
	<i>(in UAH millions)</i>					
Balance as at 1 January 2013	100	22,378	44,426	66,904	–	66,904
Total comprehensive income for 2013	–	14,779	(686)	14,093	(6)	14,087
Realized provision for investment metals disposed	19	–	34	(34)	–	–
Compensation of unrealized expense on revaluation of securities at the cost of revaluation reserve for assets and liabilities	19	–	421	(421)	–	–
Compensation of unrealized expense on revaluation of foreign currency and monetary gold at the cost of revaluation reserve for assets and liabilities	19	–	8,435	(8,435)	–	–
Utilization of general reserves	10	–	(687)	–	(687)	(687)
Transfer of funds to the State Budget of Ukraine	19	–	–	(12,308)	(12,308)	(12,308)
Liability of the National Bank of Ukraine on profit distribution to the State Budget of Ukraine	19	–	(11,886)	–	(11,886)	(11,886)
Acquisition of subsidiary		–	–	–	34	34
Balance as at 31 December 2013	100	33,474	22,542	56,116	28	56,144
Total comprehensive income for 2014	–	96,079	1,042	97,121	1	97,122
Realized gain/(loss) on revaluation of investment metals disposed	19	–	119	(119)	–	–
Realized gain/(loss) on revaluation of securities and futures		–	292	(292)	–	–
Allocation of unrealized gains/(losses) on revaluation of securities to revaluation reserves	19	–	(242)	242	–	–
Allocation of unrealized gains/(losses) on revaluation of assets and liabilities in foreign currency and monetary gold to revaluation reserves	19	–	(34,042)	34,042	–	–
Transfer of funds to the State Budget of Ukraine	19	–	(9,884)	(1,037)	(10,921)	(10,921)
Liability of the National Bank of Ukraine on profit distribution to the State Budget of Ukraine for 2014	19	–	(61,803)	–	(61,803)	(61,803)
Balance as at 31 December 2014	100	23,993	56,420	80,513	29	80,542

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 9 April 2015.

Governor

V. O. Gontareva

Chief Accountant – Director of Accounting Department

B. V. Lukasevych

The accompanying notes on pages from 134 to 206 form an integral part of these consolidated financial statements.

1 Principal activities

The National Bank of Ukraine (the “NBU”) is the central bank of Ukraine and operates in accordance with the Constitution of Ukraine, the Law of Ukraine “On the National Bank of Ukraine”, and other laws of Ukraine. In accordance with the legislation, the primary function of the NBU is ensuring stability of the national currency of Ukraine. The NBU’s objectives are also to ensure stability of the banking system and sustainability of economic growth, as well as to support the economic policies of the Cabinet of Ministers of Ukraine provided that it does not prevent the NBU from carrying out its primary function.

The NBU does not aim to earn profits. The financial results of the NBU’s activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the NBU as a special central government authority.

In accordance with the Law of Ukraine “On the National Bank of Ukraine”, the main functions of the NBU are as follows:

Determine and carry out monetary policies in accordance with the Monetary Policy Fundamentals developed by the NBU’s Council;

Carry out, in a monopoly capacity, the issue of the national currency of Ukraine and arrange for its circulation;

Ensure accumulation and maintenance of foreign (gold and foreign currency) reserves (hereinafter referred to as “international reserves”) and perform operations with international reserves and investment metals;

Be a lender of last resort to banks and organize a system of refinancing;

Exercise banking regulation and supervision on an individual and consolidated basis;

Represent Ukraine in other central banks, international banks, and other credit institutions where cooperation is maintained between central banks;

Exercise other functions in financial and credit areas within the competence defined by the Law of Ukraine “On the National Bank of Ukraine”.

According to the Law of Ukraine “On the National Bank of Ukraine”, the NBU grants loans to banks to support their liquidity, purchases and sells in the open market securities, foreign currency valuables, and precious metals, sells commemorative coins made of precious and non-precious metals in the domestic and foreign markets, performs operations on servicing the state debt in respect of placement of government securities, their redemption, and payment of interest, maintains accounts of the State Treasury of Ukraine and accounts of international organizations, and conducts other operations required to perform its functions. The NBU also performs functions of a depository for the government securities of Ukraine.

The statutory capital of the NBU is owned by the State.

In accordance with the Constitution of Ukraine, the main task of the NBU’s Council is to develop the Monetary Policy Fundamentals and exercise control over the implementation of monetary policies. In addition, in accordance with the Law of Ukraine “On the National Bank of Ukraine”, the NBU’s Council shall approve, on an annual basis, the NBU’s budget of income and expenditure for the next year, take decisions on the increase of the NBU’s statutory capital, approve annual financial statements of the NBU, report on fulfilment of the NBU’s budget of income and expenditure and distribution of profit for the reporting year, approve decisions of the NBU’s Board on the NBU’s participation in international financial organizations, as well as perform other functions according to its authorities as defined by the Ukrainian legislation.

1 Principal activities (continued)

The NBU's system consists of 25 regional offices throughout Ukraine. In addition, the NBU's structure includes the Main Administration and Maintenance Office, the Central Vault, the State Treasury of Ukraine, the Team for International Credit Line Management, the Central Clearing House, the Banknote Printing and Minting Works, and the Banknote Paper Mill. The NBU's subsidiaries include the Ukrainian Banking Academy (Sumy), the Banking University (Kyiv), and Banking Television, LLC (Kyiv), all of which are fully owned by the NBU, and SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS, PJSC, with the NBU's share in its statutory capital amounting to 77.79% (31 December 2013: 77.79%).

As at 31 December 2012, the National Bank of Ukraine recognized in its consolidated statement of financial position an investment in its associate, All-Ukrainian Securities Depository (hereinafter, the "Depository"), in the amount of 22.86% of its statutory capital (Note 13). In May 2013, in accordance with the requirements of the Law of Ukraine "On Depository System in Ukraine", the NBU acquired 83,800 shares, or 54.71%, in the Depository's capital, as a result of which the NBU's shareholding in the Depository's capital increased to 77.57%. All purchased shares have equal voting rights. The NBU's management believes that, from the moment it has acquired title of ownership to 77.57% of the Depository's shares, the NBU has obtained control over the Depository. Consequently, the NBU recognized in its consolidated financial statements the disposal of investment in the associate and acquisition of a subsidiary.

In accordance with the Law of Ukraine "On Depository System in Ukraine", a legal successor of the Depository is SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS, PJSC (hereinafter, the "Settlement Center").

Subsequently, during 2013, the NBU increased its interest in the statutory capital of the Settlement Center to 77.79% through the issue of the Settlement Center's ordinary shares.

The contributed capital of the Settlement Center amounts to UAH 153.1 million and comprises ordinary registered shares with the par value of UAH 1,000 each.

The exclusive competency of the Settlement Center includes making settlements under transactions with securities and other financial instruments exercised on stock exchanges and over-the-counter, providing settlements are performed using the "delivery versus payment" principle. The Settlement Center opens and maintains cash accounts for stock exchange participants. In addition, it ensures the payment of returns on securities and repayment of the nominal value when securities are redeemed and an issuer performs other corporate transactions, including the securities placed and circulating outside of Ukraine.

Included in the structure of the Banking University (Kyiv) are the Lviv, Kharkiv, Cherkasy, and Sevastopol Banking Institutes.

In 2013, in accordance with the Law of Ukraine No. 399-VII dated 4 July 2013 "On Amendments to Certain Legislative Acts of Ukraine Regarding the Return of Government Control over and Production of the Documents and Forms that Require Special Security Features by State-owned Enterprises", State Enterprise "Polygraph Combine "Ukraina" for Securities' Production" (hereinafter, the "Polygraph Combine"), was placed under the management of the National Bank of Ukraine.

1 Principal activities (continued)

The Polygraph Combine is state-owned and has been established to achieve economic and social results, as well as for profit earning.

The main objective of the Polygraph Combine is to meet the needs of the State, enterprises, institutions, and organizations, legal entities and individuals in blank forms requiring, in accordance with the current legislation, special security features, excise tax stamps, postage stamps, letterheads, marked envelopes, cards, postcards, payment cards, and other types of printed products and printing services.

In 2014, pursuant to Resolution of the Cabinet of Ministers of Ukraine No. 525-p dated 27 May 2014 “On the Transfer of the Integral Property Complex of State-owned Enterprise “State Center for Document Personalization” to the NBU’s Management”, the State Center for Document Personalization was placed under the management of the National Bank of Ukraine. Subsequent to the reporting date, the State Center for Document Personalization completed the process of its re-organization through its termination as a legal entity and joining the Polygraph Combine as a structural unit.

The NBU has exercised judgement and analyzed whether it complies with the control criteria under IFRS 10 “Consolidated Financial Statements” in respect to the Polygraph Combine. The NBU has power over the Polygraph Combine, but it is not exposed to risks, nor is it entitled to variable returns of its operations and acts as an agent rather than a principal in respect to the Polygraph Combine. Based on those judgments, it has been concluded that the National Bank has no control over the Polygraph Combine, so it is not consolidated in these financial statements.

2 Basis of presentation and a summary of significant accounting policies

The consolidated financial statements of the National Bank of Ukraine have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (the “IASB”).

These consolidated financial statements have been prepared based on the assumption that the NBU is a going concern and will continue in operation in the foreseeable future.

These consolidated financial statements have been prepared on the historical cost basis except for financial assets classified as financial assets at fair value through profit or loss. The consolidated financial statements are presented in the national currency of Ukraine, Ukrainian Hryvnia, which is the functional and presentation currency. These consolidated financial statements of the NBU are presented in millions of Ukrainian Hryvnias (“UAH millions”).

Basis of consolidation

These consolidated financial statements include the financials statements of the National Bank of Ukraine and its subsidiaries as at 31 December 2014.

Subsidiaries are the companies controlled by the NBU. The existence of control is determined when the following conditions applied simultaneously:

Existence of power over the investee;

2 Basis of presentation and a summary of significant accounting policies (continued)

Rights to variable returns from involvement in the investee and exposure to respective risks;

The ability to use its powers over the investee to make impact on the NBU's performance.

Consolidation of the subsidiaries begins when the NBU obtains control over them (commonly on the date of acquisition) and ceases when the NBU loses control over the subsidiaries.

Changes in ownership interest in a subsidiary, without a loss of control, is recorded in the books as an equity transaction. The losses of the subsidiary are attributable to non-controlling interest even if it results in the non-controlling interest having a deficit balance.

If the National Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary (including goodwill), the carrying amount of non-controlling interests, recognizes the fair value of the consideration received, the fair value of any investment retained, and any surplus or deficit on the transaction in profit or loss; reclassifies the share of the National Bank in the components previously recognized in other comprehensive income to profit or loss.

Intragroup balances, including income and expenses on transactions between subsidiaries, are eliminated from consolidation. The NBU and its subsidiaries use uniform accounting policies in preparing the consolidated financial statements. The financial statements of the subsidiaries have been prepared for the same reporting period as the NBU's consolidated financial statements.

Investments in associates

Associates are the entities over which the NBU has significant influence. Significant influence means the power to participate in the financial and operating policy decisions of the investee, but it does not mean control or joint control over those policies.

Investments in associates are accounted under the equity method and recognized in other assets. Subsequent changes in the carrying value reflect the post-acquisition changes in the NBU's share in net assets of the associate. The NBU's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of comprehensive income as other income or expense. The NBU's share in other changes in the associates' equity that have occurred from the date of investments is recorded in the consolidated statements of comprehensive income and changes in equity. However, if the NBU's share in losses of an associate equals or exceeds its interest in the associate, the NBU does not recognize further losses, except where the NBU is obliged to make further payments to, or on behalf of, the associate.

Key valuation techniques

Depending on their classification, the financial assets and liabilities are carried at fair value or amortized cost.

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

2 Basis of presentation and a summary of significant accounting policies (continued)

The market in which the NBU would normally enter into transaction to sell the asset or transfer the liability is presumed to be the principal market or, in absence of a principal market, the most advantageous market. The NBU should have access to the principal or the most advantageous market at the date of measurement. The NBU measures fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If there is a principal market for the asset or liability, the fair value represents the price in that market (regardless whether that price is directly observable, or it is estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

Such valuation techniques as discounted cash flows and consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changes in any such assumptions to a reasonably possible alternative may result in significantly different amounts of profit, income, expense, total assets, or total liabilities.

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

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of a financial asset or financial liability. The incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount at which the financial asset or liability was recognized at initial recognition, less any principal repayments plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and for financial assets less any write-down for incurred impairment losses.

The effective interest method is a method of calculating amortized cost of financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial asset or financial liability.

2 Basis of presentation and a summary of significant accounting policies (continued)**Transactions in foreign currency and monetary gold**

Monetary assets and liabilities denominated in foreign currency and monetary gold are initially recognized at the official exchange rates of UAH to foreign currencies and gold at the date of settlement – the date of initial recognition of assets and liabilities. Subsequently, they are revalued after each change in the official exchange rate⁴⁵.

Monetary assets and liabilities in foreign currency and monetary gold are carried in the consolidated financial statements at the official exchange rates of UAH to foreign currencies (gold) set by the NBU at the date of the consolidated statement of financial position.

Non-monetary assets denominated in foreign currency are recorded at historical cost, i.e. the official exchange rate of UAH to foreign currencies at the date of the asset's acquisition.

Monetary gold consists of the stocks of gold bars of the international standard held in the State Treasury of Ukraine. Monetary gold represents a part of international reserves. Monetary gold is recorded in physical weight in troy ounces and is measured in UAH at the official exchange rate of the NBU. The official exchange rate is calculated based on the information on gold prices as determined (fixed) by the participants of the London Bullion Market Association in USD translated into UAH at the NBU's official UAH/USD exchange rate.

Interest-bearing placements in gold with foreign banks are included in foreign currency funds and deposits and recorded in the consolidated financial statements at the official exchange rate of UAH to foreign currencies as at the date of the consolidated statement of financial position.

The principal official exchange rates of UAH to foreign currencies used for translating the monetary items of the consolidated statement of financial position and monetary gold were as follows:

	31 December 2014 (UAH)	31 December 2013 (UAH)
USD 1	15.768556	7.993000
SDR 1	22.845563	12.350849
EUR 1	19.232908	11.041530
1 troy ounce of gold	18,827.656	9,665.535

Gains or losses on revaluation of monetary assets and liabilities in foreign currency and monetary gold, as well as gold placed with foreign banks, due to the changes in the official exchange rates of UAH to foreign currencies and gold are recognized as profit or loss in the consolidated statement of comprehensive income in the period in which they arise.

⁴⁵ As at 31 December 2014, the official exchange rate of UAH to USD was set on each business day at 12:00 (Kyiv time) at the exchange rate determined as average weighted rate of purchases and sales that had been established during the current business day based on the data of the system of deal confirmation in the interbank foreign exchange market of Ukraine at the National Bank of Ukraine and effective at the time of establishment. As a result of this, during one day, two official exchange rates are used successively.

As at 31 December 2013, the official exchange rate of UAH to USD was set based on a weighted average exchange rate of purchases and sales in the interbank foreign exchange market of Ukraine for the previous working day, with a possible deviation of ± 2 %. The official exchange rate of UAH to other foreign currencies was set based on the official exchange rate of UAH to USD and cross-rates of the respective currencies in the international markets.

2 Basis of presentation and a summary of significant accounting policies (continued)**Operations with the International Monetary Fund**

The NBU acts as a depository and fiscal agent of Ukraine (in respect of the funds received by the NBU) in the relationship of Ukraine with the International Monetary Fund (the “IMF”). All claims of Ukraine on and liabilities to the IMF in respect of the funds received by the NBU are recorded in the consolidated financial statements of the NBU. The IMF’s asset balances include holdings of the Special Drawing Rights (“SDR”) and IMF quota contributions. Liabilities to the IMF include the securities issued to the IMF by the Ministry of Finance of Ukraine in settlement of quota and the NBU as a fiscal agent in respect of its borrowings and balances on the IMF’s accounts No 1 and No 2. The IMF’s account No 1 is used for IMF transactions, including quota subscription payments, purchase and repurchase of funds. Account No 2 is used for settlements with the IMF in Ukrainian currency.

Assets and liabilities denominated in SDRs, including IMF quota contributions, are translated into UAH at the NBU’s official exchange rate of UAH to SDR at the date of the consolidated statement of financial position. The official exchange rate of UAH to SDR is calculated based on the information about the exchange rate of SDR to USD set by the IMF and the NBU’s official UAH/USD exchange rate.

Interest received in respect of SDR holdings is recognized as interest income, and charges paid in respect of the use of the IMF’s funds are recognized as interest and fee expense, as appropriate, in the consolidated statement of comprehensive income. Non-reimbursable fees under arrangement of SDR purchase are recorded as fee and commission expense. Expenses related to operations with the IMF are amortized using the effective interest rate method and recorded as interest expense.

Transactions with financial instruments

Financial assets of the NBU are classified depending on intentions of their acquisition as follows:

Funds and deposits in foreign currency

Funds and deposits in foreign currency are recorded when the NBU advances foreign currency funds to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates.

Debt securities at fair value

This category includes the securities which do not meet the criteria of measurement at amortized cost. The NBU manages a group of these financial instruments in accordance with a documented business model which is used for managing the NBU’s financial assets and provides for sale of such securities in the near perspective.

The fair value of these securities is determined by reference to market quotations in the main or most advantageous markets. Securities of this category may be reclassified to securities at amortized cost if the business model changes.

2 Basis of presentation and a summary of significant accounting policies (continued)**Debt securities at amortized cost**

This category includes the securities in respect of which both of the following conditions are met:
Securities are held within the business model used for managing the NBU's financial assets under which securities are held to collect contractual cash flows;

Contractual terms give rise to cash flows on specified dates that are solely payments of securities' principal and interest on the principal amount outstanding.

Equity instruments at fair value

This category includes the investments in statutory capital of the companies which are neither associates nor subsidiaries. When the information for determining the fair value of equity instruments is not available, the cost is the best estimate of fair value. Therefore, the fair value of investments in shares of the Interstate Bank and the Black Sea Trade and Development Bank is determined at cost, i.e. is equal to their carrying amounts.

Loans to banks and other borrowers

Loans to banks and other borrowers are recorded when the NBU lends money to counterparty banks or other borrowers with intention of obtaining contractual cash flows which are exclusively the payments to repay the principal amount and interest. These loans do not have embedded derivatives, are not quoted in the market, and are due on fixed or determinable dates.

Internal state debt

Internal state debt includes the loans granted to the government of Ukraine. Under these loans, the contractual cash flows are expected to be received which are exclusively the payments to repay the principal amount and interest. The internal state debt is initially recognized at fair value and subsequently measured at amortized cost.

Recognition and measurement of financial instruments

Financial instruments are recognized as follows:

Transactions with financial instruments are recorded in the consolidated statement of financial position at a settlement date, which is the date when the ownership right to these assets is transferred to (from) the NBU;

Debt securities and equity instruments at fair value are initially recorded at fair value;

Foreign currency denominated funds and deposits, debt securities at amortized cost, loans to banks and other borrowers, and all financial liabilities are initially recorded at fair value, plus transaction related costs.

2 Basis of presentation and a summary of significant accounting policies (continued)

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 NBU determines that the fair value at initial recognition differs from the transaction price, it accounts for that instrument at that date as follows:

At the measurement value, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. The NBU recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;

In all other cases, at the measurement value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the NBU recognizes that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Subsequent measurement of the NBU's financial instruments is as follows:

Debt securities and equity instruments at fair value are revalued after each change in their market price. The gains or losses from changes in fair value are recognized in profit or loss of the consolidated statement of comprehensive income in the period in which they arise;

Foreign currency denominated funds and deposits, debt securities at amortized cost, loans to banks and other borrowers, as well as the internal state debt are measured at amortized cost using the effective interest rate method.

Provisions for impairment of financial assets

Impairment losses are recognized in profit or loss in the consolidated statement of comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The objective evidence of impairment of financial assets is the information on the following loss events:

The borrower or issuer experiences significant financial difficulties;

Breach of contract by the borrower or breach by the securities issuer of the conditions of their issue;

Possibility of bankruptcy or other financial reorganization of the borrower or issuer;

The lender, for economic or legal reasons relating to the borrower's or issuer's financial difficulty, granting to the borrower or issuer a concession that the lender would not otherwise consider (such as a change in interest rate or extension of payment terms);

Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

2 Basis of presentation and a summary of significant accounting policies (continued)

Losses from impairment are recognized through the inclusion of the respective amount in expenses. The amount of provision for impairment is calculated as a difference between the financial asset's carrying amount and the present value of expected cash flows discounted at the original effective interest rate of the asset.

If in a subsequent period the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment has been recognized, the previously recognized impairment loss is reversed by adjusting the provision account through profit or loss in the consolidated statement of comprehensive income.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed.

Renegotiation of financial assets' terms and conditions

If financial assets terms are renegotiated and changed due to financial difficulties of a borrower, such financial assets are impaired, and the respective impairment loss is calculated using the original effective interest rate determined before the renegotiation. If the loans were granted at floating rates, the impairment of such assets is calculated using the current effective interest rate. If the renegotiation of the terms is not caused by financial difficulties of the borrower, such financial assets are not considered impaired, and the carrying amount of such assets is adjusted.

The adjustment is determined as a difference between the present value of cash flows at the renegotiated terms discounted at the original effective interest rate (current effective interest rate if loans are granted at floating rates), and the carrying value of financial asset at the date of the terms' renegotiation.

Repo transactions

Funds paid under the agreements for purchase and sale of securities with a subsequent repurchase obligation ("repo") are recorded as loans to banks. The difference between the purchase and resale prices is treated as interest income recognized over the life of the repo agreements using the effective interest rate method.

Funds received under sale and repurchase agreements ("repo") are included in accounts of banks in the consolidated statement of financial position. Securities sold under sale and repurchase agreements are retained as the assets of the NBU. The difference between the sale and repurchase prices is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method.

Property and equipment

Property and equipment items are stated at historical cost less accumulated depreciation.

Historical cost of acquired property and equipment items includes the costs incurred to acquire and bring them to use.

2 Basis of presentation and a summary of significant accounting policies (continued)

Costs of enhancement of any item of property and equipment which increases the expected economic benefits embodied in this item of property and equipment increase the asset's historical cost. Costs on minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalized and the residual value of the replaced part is charged to expenses in the consolidated statement of comprehensive income of the reporting period.

If impaired, property and equipment items are written down to the higher of their recoverable value and fair value less costs to sell. Decrease in the carrying amount is recognized in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable value or fair value less costs to sell.

Gains or losses on disposals determined as the difference between the proceeds and the asset's carrying amount are recognized in profit or loss of the consolidated statement of comprehensive income.

Construction in progress is carried at cost. Upon completion, assets are transferred to buildings and constructions at cost. Construction in progress is not depreciated until the asset is available for use.

Depreciation

Depreciation of property and equipment commences after the assets are available for use and is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings and structures	20–50 years;
Vehicles	7–28 years;
Machinery and equipment	4–20 years;
Tools, fixtures, and fittings	4–10 years;
Other fixed assets	2–25 years.

Land and construction in progress are not depreciated.

The residual value of an asset is the estimated amount that the NBU would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the NBU expects to use the asset until the end of its physical life.

Intangible assets

All of the NBU's intangible assets have definite useful lives and primarily include computer software and licenses.

Historical cost of acquired intangible assets includes the costs incurred to acquire and bring them to use. Acquired intangible assets are amortized on a straight-line basis over the expected useful lives of 3 to 8 years and subsequently measured at historical cost less amortization.

2 Basis of presentation and a summary of significant accounting policies (continued)**Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of associate is included in the investments in associates. Upon the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment of goodwill is determined by measurement of the recoverable amount of the unit or group of units generating cash flows, to which goodwill have been allocated. Goodwill impairment losses are recognized if the recoverable amount of the unit (a group of units) that generate cash flows is less than its carrying value. Goodwill impairment losses are not reversed in the future.

Investment and other precious metals

Investment metals include stocks of gold, other than monetary, silver, platinum, and palladium held in the State Treasury of Ukraine. Investment metals are recorded in physical weight in troy ounces and are measured at the official exchange rate of the NBU. The official exchange rate is calculated based on the information on precious metal prices determined (fixed) by the participants of the London Bullion Market Association and participants of the London Platinum and Palladium Market and the NBU's official UAH/USD exchange rate.

The official exchange rates of investment metals to UAH at which investment metals are carried in the consolidated financial statements were as follows:

	31 December 2014 (UAH)	31 December 2013 (UAH)
1 troy ounce of gold	18,827.656	9,665.535
1 troy ounce of silver	252.297	159.221
1 troy ounce of platinum	19,174.564	10,926.431
1 troy ounce of palladium	12,819.836	5,643.058

Unrealized gains or losses on revaluation of investment metals due to changes in the official exchange rate of UAH to investment metals are included in other comprehensive income of the consolidated statement of comprehensive income in the period in which they arise. Realized gains or losses on revaluation of investment metals are transferred to retained earnings.

Interest-bearing placements in investment metals with foreign banks are included in funds and deposits in foreign currency and investment metals. The results of revaluation of investment metals placed with foreign banks due to the change in the official exchange rates of UAH to investment metals are recognized as profit or loss in the consolidated statement of comprehensive income in the period in which they arise.

Other precious metals include gold and other scrap metal and bars which are not of a recognized standard. Other precious metals are recognized as inventory and are carried at historical cost.

2 Basis of presentation and a summary of significant accounting policies (continued)

Investment and other precious metals are included in other assets in the consolidated statement of financial position.

Banknotes and coins in circulation

The amount of banknotes and coins in circulation represents the nominal value of banknotes and coins (small change, circulating, commemorative, and investment coins) that can be used as payment instruments and have been issued into circulation by the NBU after the introduction of Ukrainian hryvnia into circulation in September 1996. The banknotes and coins in circulation are recorded as liability at their nominal values when cash is issued by the NBU to banks and customers of the NBU. Cash in the national currency held in the NBU's vaults and cash offices is not included in banknotes and coins in circulation.

Accounts of banks

Accounts of banks are recognized when funds are advanced to the NBU by counterparty banks. These liabilities are non-derivative and are initially recognized at fair value, including transaction costs and are subsequently measured at amortized cost.

Accounts of government and other institutions

Accounts of government and other institutions are non-derivative liabilities to government or other customers and are initially recognized at fair value, including transaction costs, and are subsequently measured at amortized cost.

Certificates of deposit issued by the NBU

Certificates of deposit issued by the NBU are initially recorded at fair value and are subsequently measured at amortized cost using the effective interest rate method. Upon redemption of certificates of deposit issued by the NBU, the difference between the consideration paid and the amortized cost is included in profit or loss in the consolidated statement of comprehensive income.

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of comprehensive income on an accrual basis using the effective interest rate method for all debt instruments, except for debt securities at fair value through profit or loss. Interest income on debt securities at fair value through profit or loss is recognized in the consolidated statement of comprehensive income in the results from operations with debt securities at fair value.

All other fee and commission and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed as a relation of the actual service provided (received) to the total contractual services to be provided.

Expenses for money issuance

The NBU produces the Ukrainian national currency banknotes and coins. Expenses associated with the banknote and coin production (excluding commemorative coins made of precious metals and investment coins) are charged to the NBU's expenses when the banknotes and coins produced are transferred by the Printing and Minting Works to the Central Vault of the NBU. Expenses for money issuance include depreciation of plant and machinery, staff costs, and other production costs.

2 Basis of presentation and a summary of significant accounting policies (continued)

Expenses associated with the production of commemorative coins made of precious metals and investment coins are recorded as an asset in other assets line of the NBU's consolidated statement of financial position and are charged to expenses in the period when the coins are sold.

Staff costs

Salaries, payments of single contribution for mandatory state social security funds, transfers of contributions to the NBU's corporate non-government pension fund, as well as expenses incurred on personnel training and development are recognized in the year in which the respective costs are incurred.

Corporate non-government pension fund of the NBU

The NBU has established a corporate non-government pension fund, which is a defined contribution plan. The NBU pays contributions to this fund on a contractual basis. The NBU has no further payment obligations once the contributions have been paid. The contributions are recognized as staff costs when they are due. Upon retirement of the NBU's employees, all benefits are paid by the corporate non-government pension fund of the NBU.

The NBU acts as an administrator, asset manager, and custodian of the corporate non-government pension fund of the NBU.

Expenses for contributions to mandatory state social funds

Under the Ukrainian legislation, the NBU makes a single contribution for the mandatory state social security to the State Fiscal Service of Ukraine. The transfers made to the State Fiscal Service of Ukraine are expensed as incurred.

Taxation

According to the Tax Code of Ukraine, the NBU makes settlements with the State Budget of Ukraine according to the Law of Ukraine "On the National Bank of Ukraine".

The National Bank of Ukraine transfers distributable profit to the State Budget of Ukraine in accordance with the Law of Ukraine "On the National Bank of Ukraine". The distributable profit is determined by decreasing the profit by the amounts of unrealized gains for the reporting period transferred to the revaluation reserves and of unrealized losses not compensated by the revaluation reserve and including the gains that were realized in the current reporting period. These transfers are treated as distributions to owners and are recorded in the consolidated statement of changes in equity (Note 19).

The Law of Ukraine "On the State Budget of Ukraine for 2015" has introduced changes to the Law of Ukraine "On the National Bank of Ukraine" and established that, in 2014, 2015, and 2016, the NBU shall make transfers to general reserves until the amount of general reserves equals to 3, 5, and 7 percent of the National Bank's monetary liabilities, respectively. Upon creating the general reserves in the amount stipulated for by the Law of Ukraine "On the National Bank of Ukraine", the distributable profit shall be transferred to the State Budget of Ukraine in full.

Other taxes paid by the NBU are recorded within administrative and other expenses.

2 Basis of presentation and a summary of significant accounting policies (continued)**Revaluation reserve for assets and liabilities**

According to the Law of Ukraine “On the National Bank of Ukraine”, unrealized gains from the revaluation of foreign currency and monetary gold due to changes in UAH to foreign currencies and monetary gold exchange rates during the reporting period, as well as unrealized gains from the revaluation of securities and derivative financial instruments to their fair value, is transferred by the NBU to the revaluation reserve for assets and liabilities within equity in the consolidated statements of financial position and changes in equity.

The revaluation reserve is used to compensate for the unrealized losses from the revaluation of foreign currency, monetary gold, securities, and derivative financial instruments at fair value, should they accumulate during the reporting year.

The revaluation reserve for foreign currency sold, monetary gold, securities, and derivative financial instruments is included in the distributable profit in the respective reporting periods.

Provisions for subsequent expenses

Provisions for subsequent expenses of the NBU include the amounts (Note 18) provided to:

Pay for annual (basic, additional, and social) vacations of its employees to ensure the recovery of subsequent expenses incurred on annual (basic, additional, and social) vacations unused by employees of the National Bank’s institutions in the prior years and carried forward to subsequent years, with reference to the payment of a single contribution for general mandatory state social insurance. The NBU determines the amount of provision as an undiscounted amount of current payments to employees payable in accordance with the service performed by the employees, net of any amounts already paid;

Reimburse for the loss of cash stored in cash reserves, currency handling offices, and automated telling machines of the NBU’s Head Office in the Autonomous Republic of Crimea, the NBU’s offices in Donetsk and Luhansk regions, considering the exceptionally challenging situation as a result of temporary occupation, which makes it impossible for the NBU’s offices to operate in the said territories.

Cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include financial assets on demand or maturing within three months from the origination date and which are available for use at short notice and are subject to insignificant risk of changes in value, as well as liabilities on demand except for banknotes and coins in circulation. As the NBU is the issuer of national currency, the source of liquidity in the national currency is represented by liabilities, which are on demand (correspondent accounts of banks, accounts of government, IMF accounts, etc.).

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

2 Basis of presentation and a summary of significant accounting policies (continued)**Implementation of new and revised standards and IFRS interpretations applied in preparation of the NBU's consolidated financial statements**

Amendments to IAS 36 “Impairment of Assets” – Recoverable Amount Disclosures for Non- Financial Assets (applied retrospectively for annual periods beginning on or after 1 January 2014, with early application permitted subject to the application of IFRS 13). The amendments remove unintended consequences for disclosures in accordance with IAS 36 relating to coming into effect of IFRS 13. In addition, the amendments require disclosure of the recoverable amount of assets or cash-generating unit, with respect to which the impairment loss has been recognized and restored over the reporting period.

IFRS IC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014) clarifies that an entity recognizes a liability for a levy and other mandatory payments when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Amended IFRSs and interpretations that became effective in 2014, with no effect on the NBU's consolidated financial statements

Amendments to IFRS 10, IFRS 12, and IAS 27 “Investment Entities” (effective for annual periods beginning on or after 1 January 2014) provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

Amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities” (effective for annual periods beginning on or after 1 January 2014) clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

Amendments to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting” (effective for annual periods beginning on or after 1 January 2014) provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

Standards in issue but not yet effective

IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018, with early application permitted) applies to classification and measurement of financial assets and liabilities, hedge accounting, impairment of financial assets, and their derecognition.

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and, in November 2013, to include the new requirements for general hedge accounting. In July 2014, IASB issued a finalized version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 “Financial Instruments: Recognition and Measurement”.

2 Basis of presentation and a summary of significant accounting policies (continued)

The key requirements of IFRS 9 are:

Classification and measurement of financial assets. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost after initial recognition. The 2014 version of IFRS 9 introduces a “fair value through other comprehensive income” category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Classification and measurement of financial liabilities. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity’s own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss.

Impairment. The 2014 version of IFRS 9 introduces an “expected credit loss” model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

2 Basis of presentation and a summary of significant accounting policies (continued)

Depending on the approach applied, the transition may be performed simultaneously or on different dates for different requirements of the standard. The NBU early adopted IFRS 9 in respect of classification and measurement of financial assets and liabilities in preparation of the consolidated financial statements for 2012.

Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions” (effective for annual periods beginning on or after 1 July 2014, with early application permitted) clarify the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, the amendments permit a practical expedient if the amount of the contributions is independent of the number of years of service, such contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered.

IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016, with early application permitted) permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for “regulatory deferral account balances” in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The application of IFRS 14 will have no impact on the consolidated financial statements of the National Bank of Ukraine in the future, as the NBU has been preparing its consolidated financial statements under IFRS since 2012.

IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017, with early application permitted). In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

2 Basis of presentation and a summary of significant accounting policies (continued)

Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”. The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 “Business Combinations”. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied.

The same requirements should be applied to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization” (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant, and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants” (effective for annual periods beginning on or after 1 January 2016, with early application permitted). The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as a property, plant, and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for as agricultural produce in accordance with IAS 41.

Amendments to IAS 27 “Equity Method in Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2016, with early application permitted). The amendments to IAS 27 allow entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures, and associates in its separate financial statements.

Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early application permitted). The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss is recognized in full; when the assets or subsidiary do not constitute a business, the entity’s share of the gain or loss is eliminated.

The NBU is currently assessing the impact of adoption and application of the finalized version of IFRS 9 “Financial Instruments” on its consolidated financial statements. As to other Standards and Interpretations, management estimates their adoption in the future periods will not have a significant effect on the consolidated financial statements.

2 Basis of presentation and a summary of significant accounting policies (continued)

Annual Improvements to IFRSs 2010–2012 Cycle (effective for annual periods beginning on or after 1 July 2014)

The amendments to IFRS 2 “Share-based Payment” change the definition of “vesting condition” and “market condition” and add definitions for “performance condition” and “service condition” which were previously included within the definition of “vesting condition”.

The amendments to IFRS 3 “Business Combinations” clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 “Operating Segments” require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 “Fair Value Measurement” clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 “Property, Plant, and Equipment” and IAS 38 “Intangible Assets” remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant, and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 “Related Party Disclosures” clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

Annual Improvements to IFRSs 2011–2013 Cycle (effective for annual periods beginning on or after 1 July 2014)

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

2 Basis of presentation and a summary of significant accounting policies (continued)

The amendments to IAS 40 “Investment Property” clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

Annual Improvements to IFRSs 2012–2014 Cycle (effective for annual periods beginning on or after 1 January 2016)

The amendments to IFRS 5 “Insurance Contracts” clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation, and measurement requirements applicable to the new method of disposal should be applied. In addition, the amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 “Financial Instruments: Disclosures” provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, the amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 “Interim Financial Reporting”. The amendments should be applied retrospectively.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied.

The amendments to IAS 34 “Interim Financial Reporting” clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

3 Critical accounting estimates and judgments in applying accounting policies

The NBU makes estimates, assumptions, and judgments that affect the amounts of assets and liabilities reported in the consolidated financial statements for the current year and those to be reported within the next financial year. Estimates and judgments are continually revised and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant estimates and judgments include:

Financial assets at amortized cost

Management of the National Bank of Ukraine has reviewed the financial assets carried at amortized cost and confirmed that:

The assets are held within a business model that is aimed at holding assets in order to collect contractual cash flows;

Contractual terms and conditions of the financial assets stipulate for the receipt of cash flows on specific dates that are intended only to repay a principal and interest for the outstanding principal amount.

Impairment of securities carried at amortized cost

The NBU regularly reviews its portfolio of securities carried at amortized cost to assess for impairment. In determining whether an impairment loss should be recognized in respect of the portfolio, the NBU's management makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows of the portfolio of securities. This evidence may include observable data indicating that there has been an adverse change in the solvency of issuers.

The NBU's management believes that, as at 31 December 2014 and 2013, there was no evidence for impairment of the securities carried at amortized cost.

Impairment of loans to banks and other borrowers

The NBU regularly reviews its loan portfolio to assess the impairment.

Most of the NBU's loans to banks and other borrowers are assessed on an individual basis. The NBU's management makes judgments to assess future cash flows of each specific loan. Provisions for individually significant loans are calculated by discounting future cash flows of those loans, with reference to repayment of the loan and sale of a collateral under the respective loan. In measuring future impairment of the loans to banks that are in the process of liquidation, considered to be insolvent, or experiencing significant financial difficulties, management makes judgments and estimates future cash flows of the collateral sold.

The NBU determines the value of property obtained as collateral under lending transactions at fair value. Provision for loan impairment may be affected by the assessed property value which requires professional judgment. Accounting estimates related to the property appraisals in the absence of active market-based prices are considered to be a key source of uncertainty due to the fact that: (i) they are highly susceptible to change from period to period, and (ii) a potential impact from recognition of such estimates may be material.

3 Critical accounting estimates and judgments in applying accounting policies (continued)

In determining whether an impairment loss should be recognized in respect of the loans granted under credit lines to support small and medium enterprises at the cost of the funds obtained from the European Bank for Reconstruction and Development, the NBU's management makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the solvency of borrowers in a group, or national or local economic conditions that correlate with defaults on the loans granted by the NBU. The NBU uses estimates based on historical loss experience for assets with similar credit risk characteristics when forecasting its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% decrease or increase in the estimated future discounted cash flows from individually impaired loans, which could arise from differences in amounts and timing of the cash flows, would result in the increase of loan impairment provisions as at 31 December 2014 in the amount of UAH 4,200 million or their decrease in the amount of UAH 1,654 million, respectively (31 December 2013: increase in the amount of UAH 1,241 million or decrease in the amount of UAH 1,336 million).

Impairment of property and equipment and intangible assets

At the end of each reporting period, the NBU's management reviews the carrying amounts of property and equipment and intangible assets to assess for their potential impairment if certain events or changes in circumstances indicate to possible impairment of their carrying amounts (Notes 12, 13). The impairment of property and equipment and intangible assets is measured by estimating the recoverable values of assets.

Related party transactions

In the normal course of business, the NBU enters into transactions with its related parties, being mainly the government and state-controlled banks and entities. IFRS 9 requires that the initial recognition of financial instruments be based on their fair values. Judgment is applied in determining whether transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

The terms and conditions of related party transactions are disclosed in Note 37.

4 Effect of economic environment on the consolidated financial position and performance of the National Bank of Ukraine and its subsidiaries

During 2014, the NBU's monetary policy was carried out in the extremely challenging conditions, both external and internal.

4 Effect of economic environment on the consolidated financial position and performance of the National Bank of Ukraine and its subsidiaries (continued)

The limited capacity of public funding, unprofitable business activities of enterprises, and growing salary arrears were the factors of low domestic investment and consumer demand. Effects of the said factors aggravated due to social and political tension in the country, as well as active military activities in the east of Ukraine, which, together with other issues, have complicated the NBU's business activities.

The above had a relevant effect on the total output and the state of real economy of the country. In particular, the decline in real GDP in 2014 amounted to 6.8% (Real GDP growth in 2013 was 0%) (<http://ukrstat.org>).

The external imbalances accumulated in the previous years, alongside with the depressive economic situation, as well as social, political, and military events, led to a significant deterioration in market expectations, with a simultaneous increase in the demand for foreign currency. Thus, the exchange rate of UAH against USD changed by 97.3% (from UAH/USD 7,993 as at 31 December 2013 to UAH/USD 15,769 as at 31 December 2014).

Another significant factor for the negative impact on the UAH exchange rate was macroeconomic imbalances caused by the significant deficit of the State Budget of Ukraine and NJSC "Naftogaz of Ukraine". To balance them and prevent the creation of an additional foreign currency demand, the National Bank of Ukraine has effectively withdrawn from the interbank foreign exchange market of Ukraine the largest buyer of foreign currency, NJSC "Naftogaz of Ukraine", by providing it with the access to foreign currency through targeted interventions.

The decreased UAH exchange rate and the administrative increase in some prices and tariffs due to implementation of unpopular but necessary economic reforms triggered price movements. The growth of consumer price index in 2014 was 24.9% (2013: 0.5%) (<http://ukrstat.org>).

In the above-mentioned conditions, actions of the National Bank of Ukraine were primarily aimed at stabilizing the banking system and ensuring timely settlements. For this purpose, the National Bank of Ukraine supports the liquidity of banks by granting refinancing loans to them and renegotiating their repayment schedules. In addition, the NBU has liberalized the requirements for creating mandatory reserves by banks, including full release of funds from the separate accounts. In addition, to maintain confidence in the banking system, the National Bank of Ukraine has paid special attention to the support of the Deposit Guarantee Fund.

In 2014 there was a decrease in international reserves. The main factor for the reduced amount of international reserves was the deficit balance of foreign exchange interventions of the National Bank of Ukraine.

As at 31 December 2014, Ukraine's sovereign rating was "Caa3" according to the rating agency Moody's, "CCC-" according to the rating agency Standard & Poor's, and "CCC" according to the rating agency Fitch (31 December 2013: Ukraine's sovereign rating was "Caa1" according to the rating agency Moody's, "B-" according to the rating agency Standard & Poor's, and "B-" according to the rating agency Fitch).

4 Effect of economic environment on the consolidated financial position and results of operations of the National Bank of Ukraine and its subsidiaries (continued)

The Ukrainian economy displays the characteristics of an emerging market. These characteristics include the existence of the national currency that is not convertible outside the country, a low level of liquidity in the public and private debt and equity markets, and budgetary constraints. Therefore, in 2014, the NBU was obliged to repurchase and acquire title of ownership in respect of domestic securities in the amount of UAH 183,290 million in order to regulate the monetary market and banks' liquidity (2013: UAH 42,757 million at the nominal value); and, during 2014, the NBU transferred the funds to the State Budget of Ukraine in the amount of UAH 22,807 million (2013: UAH 28,308 million) (Notes 8 and 19).

The table below summarizes the amounts in the consolidated statement of financial position representing due from the Ukrainian government.

<i>(in UAH millions)</i>	Notes	2014	2013
Domestic securities	8	330,774	154,134
Internal state debt	10	2,180	2,268

The estimated fair value of the amounts due from the government is disclosed in Note 35.

Changes in operating and political environment in Ukraine in 2014

In January-February 2014, the intensified political uncertainty led to the removal from office of the President and most of government officials by the Verkhovna Rada (the Parliament). The Parliament initiated certain political reforms and appointed a transitional government. The goal of the transitional government was to form a set of anti-crisis measures aimed restraining the decline caused by the political unrest in production and gross domestic product and reducing the deficit of the State Budget and other macroeconomic indicators. On 21 March 2014, the transitional government of Ukraine signed a political association agreement with the European Union and commenced negotiations on obtaining financial support from international financial institutions. In 2014, extraordinary Presidential elections were held, as well as those to elect the Verkhovna Rada of Ukraine, and the new government was formed.

In March 2014, occupational authorities of the Autonomous Republic of Crimea in a held a referendum and declared seceding from Ukraine and becoming a part of the Russian Federation on the basis of its outcome. The voting was held without international observers. The international organizations and the international community did not recognize the results of the referendum because as they believed it infringed the sovereignty of Ukraine and international law. While the referendum and the respective declaration of independence were ruled unconstitutional by the Constitutional Court of Ukraine, the President of the Russian Federation and the representatives of the Autonomous Republic of Crimea signed an agreement on the accession of Crimea to the Russian Federation, which was ratified by the Constitutional Court and the Parliament of the Russian Federation. As at 31 December 2014, the losses of the NBU's assets located in or otherwise associated with the Autonomous Republic of Crimea (including loans to borrowers) and those incurred due to the loss by the Ukrainian authorities of control over certain areas in Donetsk and Luhansk regions amounted to UAH 1,042 million, which was equal to 0.18% of the NBU's consolidated assets (31 December 2013: the carrying value of the NBU's assets located in or otherwise associated with the Autonomous Republic of Crimea amounted to UAH 673 million, which was equal to 0.16% of the NBU's consolidated assets).

4 Effect of economic environment on the consolidated financial position and results of operations of the National Bank of Ukraine and its subsidiaries (continued)

The NBU Management has been monitoring these developments and taking actions where appropriate. Further adverse developments may negatively affect the NBU's performance and financial position in a manner and to the extent not currently determinable.

The stability of Ukraine's economy is largely dependent on the Government's policies and actions aimed at reforming the administrative, fiscal, and legal systems, and the economy as a whole. Thus, business operations in Ukraine are exposed to risks that do not exist in more developed markets. The Ukrainian economy is largely dependent on fluctuations in global markets and the growth rate of the global economy.

5 Funds and deposits in foreign currency and investment metals

	2014	2013
	<i>(in UAH millions)</i>	
Financial assets		
Foreign currency cash	1,135	598
Demand deposits	10,186	25,814
Term deposits in foreign currency	6,017	26,495
Interest income accrued on deposits in gold	–	1
Total financial assets	17,338	52,908
Non-financial assets		
Term and demand deposits:		
in gold	–	5,217
Total non-financial assets	–	5,217
Total funds and deposits in foreign currency and investment metals	17,338	58,125

Included in demand deposits as at 31 December 2014 were balances on special purpose accounts totaling to UAH 178 million (31 December 2013: UAH 131 million) maintained by the NBU under credit lines received from international financial institutions, and UAH 7 million of margin reserve for settlements under futures operations within the framework of the agreements on investment management and advisory services between the International Bank for Reconstruction and Development and the NBU (2013: UAH 5 million) (Note 34).

As at 31 December 2013, term deposits in gold earned interest paid in USD.

All foreign currency funds and deposits were neither past due nor impaired as at 31 December 2014 and 2013. The foreign currency deposits were not collateralized.

All foreign currency funds and deposits are expected to be recovered within 12 months (31 December 2013: all foreign currency funds and deposits were expected to be recovered within 12 months).

Geographical concentration risk analysis of the foreign currency funds and deposits is disclosed in Note 29, credit risk analysis is disclosed in Note 30, foreign currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is presented in Note 33.

6 Foreign securities

As at 31 December 2014, foreign securities comprised the following:

	Government bonds	Securities of international agencies, banks, and other issuers	Total
			<i>(in UAH millions)</i>
Foreign securities at fair value:			
Debt securities by issuers:			
Securities issued by US issuers:			
denominated in USD	37,526	1,029	38,555
Securities issued by EU states issuers:			
denominated in GBP	2,368	–	2,368
denominated in USD	7,510	13,668	21,178
denominated in EUR	4,887	7,774	12,661
Securities of other issuers:			
denominated in EUR	–	3,359	3,359
denominated in USD	795	8,678	9,473
denominated in AUD	403	–	403
Total debt securities	53,489	34,508	87,997
Equity instruments:			
Shares of the Black Sea Trade and Development Bank	–	120	120
Investment in the Inter-State Bank	–	1	1
Total equity instruments	–	121	121
Total foreign securities at fair value	53,489	34,629	88,118

As at 31 December 2014 and 2013, all foreign debt securities were neither past due nor impaired.

In 2014, interest income earned on foreign debt securities included in results from operations with debt securities at fair value in the consolidated statement of comprehensive income amounted to UAH 1,548 million (2013: UAH 1,807 million).

All foreign securities are expected to be recovered within 12 months, except for equity instruments totaling to UAH 121 million (31 December 2013: UAH 121 million).

Securities of international agencies, banks, and other issuers include debt securities issued by foreign central and investment banks, international agencies and other issuers.

Government bonds included in securities of other issuers are represented by bonds issued by foreign local governments.

Shares of the Black Sea Trade and Development Bank

The contribution to the share capital of the Black Sea Trade and Development Bank (the “BSTDB”) was made in accordance with the agreement on establishment of the BSTDB dated 30 June 1994.

6 Foreign securities (continued)

As at 31 December 2014, the amount of the NBU's contribution to the share capital of the BSTDB was SDR 24 million (UAH 120 million at the UAH/SDR official exchange rate as at the date of the investment) (31 December 2013: SDR 24 million or UAH 120 million). The NBU's share in the paid share capital of the BSTDB was 4% (31 December 2013: 4%).

Investment in the Interstate Bank

The Inter-State Bank (the "ISB") was established under a multi-lateral agreement of member countries of the Commonwealth of Independent States in 1993. The ISB is an international settlement and credit and finance institution. The contribution of Ukraine to the share capital of the ISB is UAH 1 million and the share in equity equals to 20.7%. The NBU does not have a significant influence on decisions of the ISB and does not earn any income from its activities.

As at 31 December 2014, these investments were carried at fair value of UAH 121 million (31 December 2013: UAH 121 million) and were classified as equity instruments. These investments were made by the NBU in performance of one of its functions as the central bank of Ukraine, i.e. represent Ukraine in the organizations where co-operation is performed at the level of central banks. The shares of these banks are not traded, as those are specialized international institutions. The NBU has no intention to dispose of those investments.

Geographical concentration risk analysis of foreign securities is disclosed in Note 29, credit risk analysis for debt securities is disclosed in Note 30, currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is presented in Note 33.

As at 31 December 2013, foreign securities comprised the following:

	Government bonds	Securities of international agencies, banks, and other issuers	Total
	<i>(in UAH millions)</i>		
Foreign securities at fair value:			
Debt securities by issuers:			
Securities issued by US issuers:			
denominated in USD	29,360	1,195	30,555
denominated in AUD	–	1,220	1,220
Securities issued by EU states issuers:			
denominated in GBP	2,918	2,147	5,065
denominated in USD	3,857	19,798	23,655
denominated in EUR	7,867	13,031	20,898
denominated in AUD	–	1,499	1,499
Securities of other issuers:			
denominated in GBP	–	925	925
denominated in EUR	–	1,375	1,375
denominated in USD	845	9,639	10,484
denominated in AUD	3,744	1,039	4,783
Total debt securities	48,591	51,868	100,459
Equity instruments:			
Shares of the Black Sea Trade and Development Bank	–	120	120
Investment in the Inter-State Bank	–	1	1
Total equity instruments	–	121	121
Total foreign securities at fair value	48,591	51,989	100,580

6 Foreign securities (continued)

Information on nominal value, yield to maturity, coupon income, and maturities of foreign debt securities held by the NBU as at 31 December 2014 is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in UAH equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value by issuers:						
Government bonds:						
Securities issued by US issuers:						
denominated in USD	2,351	37,078	0.1-1.6	0.25-2.75	Every 6 months	From 1 month to 4.9 years
Securities issued by EU states issuers:						
denominated in GBP	95	2,325	0.4-0.9	1.0-2.75	Every 6 months	From 22 days to 3.6 years
denominated in USD	476	7,498	0.2-1.7	0.25-1.75	Quarterly, every 6 months, or annually	From 2.2 months to 4.7 years
denominated in EUR	248	4,770	0.0-0.7	0.229-1.65	Quarterly or annually	From 3.5 months to 9.8 years
Securities of other issuers:						
denominated in USD	50	788	0.7	1	Every 6 months	1.6 years
denominated in AUD	30	386	2.1-2.3	4.25-4.75	Every 6 months	From 9.8 months to 2.6 years
Bonds of international agencies, banks, and other issuers:						
Securities issued by US issuers:						
denominated in USD	65	1,025	0.5-1.5	1.4-1.95	Every 6 months	From 2.5 months to 2.7 years
Securities issued by EU states issuers:						
denominated in USD	860	13,562	0.2-1.8	0.24185-5.0	Monthly, quarterly, every 6 months, or annually	From 15 days to 5.2 years
denominated in EUR	400	7,693	0.0-0.6	0.09-3.0	Quarterly or annually	From 1.6 months to 9.5 years
Securities of other issuers:						
denominated in USD	547	8,630	0.2-1.9	0.2536-2.75	Quarterly or every 6 months	From 26 days to 4.4 years
denominated in EUR	170	3,270	0.2-0.9	0.25-3.75	Annually	From 23 days to 6.8 years

6 Foreign securities (continued)

Information on nominal value, yield to maturity, coupon income, and maturities of foreign debt securities held by the NBU as at 31 December 2013 is presented in the table below:

	Total nominal value in foreign currency, in millions	Total nominal value in UAH equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Debt securities at fair value by issuers:						
Government bonds:						
Securities issued by US issuers:						
denominated in USD	3,638	29,085	0.1-1.5	0.125-275	Every 6 months	From 4 months to 4.4 years
Securities issued by EU states issuers:						
denominated in GBP	223	2,936	0.8-1.9	1.0-2.0	Every 6 months or annually	From 2.1 to 4.6 years
denominated in USD	483	3,857	0.3-1.5	0.25-1.0	Quarterly or every 6 months	From 8.2 months to 4.3 years
denominated in EUR	713	7,873	0.1-1.6	0.25-3.125	Quarterly or annually	From 2.5 months to 6.2 years
Securities of other issuers:						
denominated in USD	105	839	0.4-0.9	0.875-1.375	Every 6 months	From 1 month to 3.1 years
denominated in AUD	494	3,519	2.4-3.9	4.25-6.25	Every 6 months	From 5.5 months to 7.4 years
Bonds of international agencies, banks, and other issuers:						
Securities issued by US issuers:						
denominated in USD	150	1,199	0.7-1.6	0.875-1.125	Every 6 months	From 2.7 to 4.5 years
denominated in AUD	170	1,211	2.9-3.7	3.0-3.5	Every 6 months	From 1.8 to 4.1 years
Securities issued by EU states issuers:						
denominated in GBP	160	2,112	0.5-1.7	0.62431-4.00	Quarterly or annually	From 1.8 months to 4 years
denominated in USD	2,470	19,743	0.19-2.7	0.24385-5.0	Monthly, quarterly, every 6 months, or annually	From 10 days to 6.2 years
denominated in EUR	1,161	12,814	0.2-1.7	0.285-3.0	Quarterly or annually	From 2.4 months to 6.8 years

6 Foreign securities (continued)

	Total nominal value in foreign currency, in millions	Total nominal value in UAH equivalent, in UAH millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
denominated in AUD	200	1,424	3.2-3.9	3.75-5.625	Every 6 months or annually	From 1.7 to 4.5 years
Securities of other issuers:						
denominated in GBP	70	924	0.8-1.2	0.875-1.21981	Quarterly or annually	From 1.8 to 2.9 years
denominated in USD	1,204	9,622	0.0-2.4	0.2581-2.9	Quarterly or every 6 months	From 15 days to 5.1 years
denominated in EUR	120	1,325	0.6-1.7	1.375-3.75	Annually	From 1.1 to 6.3 years
denominated in AUD	145	1,033	3.2-3.3	3.0-3.4633	Quarterly or every 6 months	From 2.9 to 3.7 years

7 SDR holdings

SDR holdings are demand funds denominated in SDR on the account opened with the IMF for Ukraine.

Movements in SDR holding account during 2014 were as follows:

	2014	2013
	<i>(in UAH millions)</i>	
Balance of SDR holdings as at 1 January	128	73
Proceeds from the IMF under stand-by program		
in favor of the NBU	19,033	–
in favor of government	35,931	–
Purchase of SDRs	40,999	45,970
Other proceeds and payments	89	–
Repayment of loans to the IMF:		
on behalf of the NBU	(11,587)	(24,470)
on behalf of government	(28,758)	(20,089)
Payment of loan related commissions	(536)	–
Translation of SDRs to other foreign currencies		
in favor of the NBU	(18,713)	–
in favor of government	(35,931)	–
Payment of interest for the use of the IMF resources:		
on behalf of the NBU	(237)	(566)
on behalf of government	(438)	(782)
Payment of interest for the use of funds received under SDR allocation:		
on behalf of the NBU	(1)	(1)
on behalf of government	(20)	(11)
Translation differences	100	4
Balance of SDR holdings as at 31 December	59	128

7 SDR holdings (continued)

In 2014, the account of SDR holdings received funds in the amount of SDR 2,973 million (UAH 54,964 million at the official exchange rate at the date of payment) under the stand-by program. Of which SDR 768 million (UAH 13,929 million at the official exchange rate at the date of receipt) and SDR 265 million (UAH 5,104 million at the official exchange rate at the date of receipt) were the funds of the first and second tranches under the new stand-by program received at the NBU's account and translated to other foreign currencies and recorded as the NBU's liabilities to the IMF, and SDR 1,290 million (UAH 23,396 million at the official exchange rate at the date of receipt) and SDR 650 million (UAH 12,535 million at the official exchange rate at the date of receipt) were proceeds from the first and second tranches under the stand-by program received in favor of government and translated to other foreign currencies and recorded on the State Treasury's account with the NBU.

During 2013, no funds were received by Ukraine from the IMF.

8 Domestic securities

As at 31 December 2014, domestic securities comprised the following:

	Government securities	Corporate securities	Total
	<i>(in UAH millions)</i>		
Domestic debt securities at fair value:			
Denominated in the national currency:			
Domestic government loan bonds ("DGLBs")	9,254	–	9,254
Denominated in foreign currencies:			
Domestic government loan bonds denominated in USD	1,427	–	1,427
Total debt securities at fair value	10,681	–	10,681
Debt securities at amortized cost:			
Denominated in the national currency:			
Domestic government loan bonds	311,565	–	311,565
Bonds of other government institutions	–	5,052	5,052
Denominated in foreign currencies:			
FGLBs denominated in USD	1,932	–	1,932
FGLBs denominated in EUR	1,544	–	1,544
Total debt securities at amortized cost	315,041	5,052	320,093
Total domestic securities	325,722	5,052	330,774

In accordance with the Law of Ukraine "On the National Bank of Ukraine", the NBU performs operations with domestic securities only in the secondary market.

Domestic government loan bonds ("DGLBs") are issued by the Ministry of Finance of Ukraine. The nominal value of DGLBs is UAH 1,000 each.

8 Domestic securities (continued)

In 2014, the NBU purchased UAH-denominated DGLBs for the total amount of UAH 181,900 million, part of which in the amount of UAH 1,026 million was included in debt securities at fair value that were acquired through the tool of two-way quotation, and DGLBs for the total amount of UAH 180,874 million included in debt securities at amortized cost (2013: total nominal value of UAH 42,757 million), of which:

DGLBs of the total nominal value of UAH 62,257 million were purchased by the NBU in order to regulate the monetary market and liquidity of banks (2013: all DGLBs were purchased to regulate the monetary market and liquidity of banks);

DGLBs of the total nominal value of UAH 95,890 million were purchased by the NBU on the request of the Government of Ukraine to meet general state demands as a result of the increase by the Government of Ukraine of the statutory capital of NJSC “Naftogaz of Ukraine” through the issue of DGLBs;

DGLBs of the total nominal value of UAH 20,717 million were obtained into ownership as a result of restructuring the debts of the Ministry of Finance of Ukraine to the NBU for the payments made to settle government’s tranche under settlements with the IMF within the stand-by program;

DGLBs of the total nominal value of UAH 2,010 million were obtained into ownership in order to satisfy the NBU’s claims as a purchaser under direct repo agreements and overnight loan.

In 2014, the NBU purchased domestic government loan bonds of the total nominal value of UAH USD 93.5 million, or UAH 1,390 million at the official exchange rate at the date of acquisition, as issued by the Ministry of Finance of Ukraine and denominated in USD, with the nominal value of USD 1,000 each, which were included in debt securities at fair value. USD-denominated DGLBs were purchased primarily to regulate the monetary market and liquidity of banks.

Foreign government loan bonds (“FGLBs”) are issued by the Ministry of Finance of Ukraine. FGLBs are denominated in USD and EUR and have the nominal values USD 100,000 and EUR 50,000 each.

Bonds of other government institutions include the bonds issued by the State Mortgage Institution, with the additional collateral in the form of the government guarantee of the issuer’s liabilities issued by the Cabinet of Ministers of Ukraine (the “SMI bonds”), and bonds of the National Agency of Roads of Ukraine, with the additional collateral in the form of the government guarantee of the issuer’s liabilities issued by the Cabinet of Ministers of Ukraine (the “Ukravtodor bonds”). In 2014, the NBU did not purchase any bonds of other government institutions (2013: the NBU purchased bonds of other government institutions to regulate the banks’ liquidity).

The SMI bonds have the nominal value of UAH 100,000 each. In 2014 and 2013, the NBU did not purchase the SMI bonds.

In 2013, the NBU purchased the Ukravtodor bonds with the nominal value of UAH 2,800 million and fair value, at the acquisition date, of UAH 2,828 million. In 2014, the NBU did not purchase any Ukravtodor bonds. The nominal value of the Ukravtodor bonds is UAH 1,000 each.

8 Domestic securities (continued)

As at 31 December 2014, the NBU, with the purpose of managing its financial assets in the course of regulating the monetary market and liquidity of the banking system, performed the following transfers:

DGLBs from the category of domestic debt securities at fair value of the total nominal value of UAH 7,770 million to the category of debt securities at amortized cost. The effective interest rate under such securities, at the reclassification, was in the range of 20.10%–24.75%, and the fair value, as at 31 December 2014, amounted to UAH 6,860 million; and

DGLBs from the category of debt securities at amortized cost of the total nominal value of UAH 10,331 million to the category of domestic debt securities at fair value.

All domestic securities were neither past due nor impaired as at 31 December 2014 and 2013.

All domestic securities are expected to be recovered later than within 12 months from the reporting date, except for nominal amount of DGLBs and bonds of other government institutions and accrued interest on debt securities totaling to UAH 23,093 million, and nominal amount of FGLBs and accrued interest on them totaling to UAH 1,631 million payable within 2015 (31 December 2013: all domestic securities were expected to be recovered later than within 12 months from the reporting date, except for nominal amount of DGLBs and bonds of other government institutions and accrued interest on debt securities totaling to UAH 13,348 million, and accrued interest on FGLBs totaling to UAH 116 million payable in 2014).

Credit risk analysis of domestic securities is disclosed in Note 30, foreign currency risk analysis is disclosed in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is presented in Note 33. Information on the estimated fair value of domestic securities is presented in Note 35.

As at 31 December 2013, domestic securities comprised the following:

<i>(in UAH millions)</i>	Government securities	Corporate securities	Total
Domestic debt securities at fair value:			
Denominated in the national currency:			
Domestic government loan bonds (“DGLBs”)	8,080	–	8,080
Debt securities at amortized cost:			
Denominated in the national currency:			
Domestic government loan bonds	136,987	–	136,987
Bonds of other government institutions	–	7,273	7,273
Denominated in foreign currencies:			
FGLBs denominated in USD	954	–	954
FGLBs denominated in EUR	840	–	840
Total debt securities at amortized cost	138,781	7,273	146,054
Total domestic securities	146,861	7,273	154,134

8 Domestic securities (continued)

Information on the nominal value, yield to maturity, coupon income, and maturities of domestic securities as at 31 December 2014 is presented in the table below:

	Total nominal value in UAH, in UAH millions	Total nominal value in foreign currency, in millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Domestic debt securities at fair value:						
Denominated in the national currency:						
Domestic government loan bonds	10,331	–	17.6-36.4	0.00-14.30	Every 6 months	From 1.1 month to 4.6 years
Denominated in foreign currencies:						
Domestic government loan bonds denominated in USD	1,475	94	10.2-18.0	7.75-9.45	Every 6 months	From 1.1 months to 1.6 years
Debt securities at amortized cost:						
Denominated in the national currency:						
Domestic government loan bonds	306,475	–	9.7-18.4	9.50-17.60	Every 6 months	From 1.1 years to 9.8 years
Bonds of other government institutions	5,030	–	9.8-17.3	9.50-16.30	Quarterly	From 1 year to 3.7 years
Denominated in foreign currencies:						
FGLBs denominated in USD	2,050	130	10.1-10.3	6.58-6.75	Every 6 months	From 1.9 to 2.9 years
FGLBs denominated in EUR	1,597	83	11.1	4.95	Annually	Up to 9.5 months

Information on the nominal value, yield to maturity, coupon income, and maturities of domestic securities as at 31 December 2013 is presented in the table below:

	Total nominal value in UAH, in UAH millions	Total nominal value in foreign currency, in millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Domestic debt securities at fair value:						
Denominated in the national currency:						
Domestic government loan bonds	7,894	–	9.5-9.7	9.50-9.75	Every 6 months	From 11 months to 2.7 years
Debt securities at amortized cost:						
Denominated in the national currency:						
Domestic government loan bonds	139,160	–	9.7-17.9	5.50-15.00	Every 6 months	From 1 month to 8.4 years

8 Domestic securities (continued)

	Total nominal value in UAH, in UAH millions	Total nominal value in foreign currency, in millions	Yield to maturity, % p.a.	Coupon rate, % p.a.	Frequency of coupon payments	Maturity
Bonds of other government institutions	7,230	–	8.2-17.3	8.00-16.30	Quarterly	From 23 days to 4.7 years
Denominated in foreign currencies:						
FGLBs denominated in USD	1,039	130	10.1-10.3	6.58-6.75	Every 6 months	From 2.9 to 3.9 years
FGLBs denominated in EUR	917	83	11.1	4.95	Annually	Up to 1.8 years

9 Loans to banks and other borrowers

Loans to banks and other borrowers by the purpose of their issue are classified as follows:

	2014	2013
	<i>(in UAH millions)</i>	
Loans granted to banks to support their liquidity:		
for stabilizing banking activities	97,483	55,022
under “repo” agreements	2,560	14,745
loans provided through tenders conducted by the NBU	13,314	9,905
overnight loans	–	478
other	10	10
Loans granted to the Deposit Guarantee Fund	10,200	–
Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development (the “EBRD”)	36	36
Other	2	2
Provision for impairment of loans to banks and other borrowers	(42,032)	(13,200)
Total loans to banks and other borrowers	81,573	66,998

Loans granted for stabilizing banking activities, which are expected to be recovered later than within 12 months from the reporting date, amounted to UAH 23,028 million at the nominal value (31 December 2013: UAH 35,022 million).

In 2014 and 2013, the NBU supported the liquidity of banks through establishing a standing refinancing line (overnight loans), refinancing banks for the period up to 14 days, up to 90 days, and up to 360 days by holding tenders, and supporting banks’ liquidity through carrying out direct “repo” transactions with government bonds of Ukraine and granting stabilizing loans.

9 Loans to banks and other borrowers (continued)

In 2014, changes in provisions for loans to banks and other borrowers were as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development (the "EBRD")	Other	Total
				<i>(in UAH millions)</i>
Provision for loans to banks and other borrowers at the beginning of the year	13,162	36	2	13,200
Increase in provision (Note 27)	28,841	–	–	28,841
Adjustment of interest income on impaired loans to banks	1,979	–	–	1,979
Reversal of provision (Note 27)	(1,985)	–	–	(1,985)
Write-off of assets against provisions	(3)	–	–	(3)
Provision for loans to banks and other borrowers at the end of the year	41,994	36	2	42,032

In 2013, movements in provisions for loans to banks and other borrowers were as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development (the "EBRD")	Other	Total
				<i>(in UAH millions)</i>
Provision for loans to banks and other borrowers at the beginning of the year	13,933	36	169	14,138
Increase in provision (Note 27)	1,243	–	–	1,243
Adjustment of interest income on impaired loans to banks	(398)	–	–	(398)
Reversal of provision (Note 27)	(1,615)	–	(166)	(1,781)
Write-off of assets against provisions	(1)	–	(1)	(2)
Provision for loans to banks and other borrowers at the end of the year	13,162	36	2	13,200

9 Loans to banks and other borrowers (continued)

Analysis of loans to banks and other borrowers outstanding as at 31 December 2014 by credit quality was as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development (the "EBRD")	Loans granted to the Deposit Guarantee Fund and other	Total
	<i>(in UAH millions)</i>			
Neither past due nor impaired, by credit rating:				
CC	46,728	–	–	46,728
CCC	1,365	–	–	1,365
Unrated	8,714	–	10,200	18,914
Total neither past due nor impaired	56,807	–	10,200	67,007
Overdue but not impaired:				
overdue up to 30 days	117	–	–	117
Individually impaired:				
not past due	45,820	–	–	45,820
overdue up to 30 days	5,275	–	–	5,275
overdue from 31 to 90 days	1,657	–	–	1,657
overdue from 90 to 180 days	650	–	–	650
overdue from 181 to 360 days	2,092	–	–	2,092
overdue over 360 days	949	36	2	987
Total individually impaired	56,443	36	2	56,481
Provision for loans to banks and other borrowers	(41,994)	(36)	(2)	(42,032)
Total loans to banks and other borrowers	71,373	–	10,200	81,573

Credit quality of the loans granted to the Deposit Guarantee Fund is limited by the sovereign credit rating of Ukraine as at 31 December 2014.

As disclosed in Note 2, the primary factors that the NBU considers in determining whether a loan is impaired are worsening of the borrower's financial position, loans overdue status, and possibilities to sell collateral. The NBU presents in the table above an ageing analysis of the loans that are individually determined to be impaired.

9 Loans to banks and other borrowers (continued)

Analysis of loans to banks and other borrowers outstanding as at 31 December 2013 by credit quality was as follows:

	Loans granted to banks to support their liquidity	Loans granted under credit lines to support small and medium enterprises from the funds received from the European Bank for Reconstruction and Development (the "EBRD")	Other	Total
<i>(in UAH millions)</i>				
Neither past due nor impaired, by credit rating:				
B-	254	–	–	254
CCC+	36,930	–	–	36,930
Unrated	15,219	–	–	15,219
Total neither past due nor impaired	52,403	–	–	52,403
Individually impaired:				
not past due	26,678	–	–	26,678
overdue from 31 to 90 days	1	–	–	1
overdue over 360 days	1,078	36	2	1,116
Total individually impaired	27,757	36	2	27,795
Provision for loans to banks and other borrowers	(13,162)	(36)	(2)	(13,200)
Total loans to banks and other borrowers	66,998	–	–	66,998

Loans granted to banks with the purpose of supporting their liquidity were normally collateralized by securities, in particular, government bonds of Ukraine, municipal bonds, corporate bonds of enterprises, including those guaranteed by the Cabinet of Ministers of Ukraine, foreign currency, shares of significant shareholders in a bank, as well as real estate items, proprietary rights on loan agreements, and mortgages.

As at 31 December 2014, the estimated difference between actual losses of the NBU from the impairment of loans and losses from the impairment of those loans that would have been incurred, had they been granted without any collateral, amounted to UAH 14,449 million (as at 31 December 2013: UAH 7,079 million).

Geographical concentration risk analysis of loans to banks and other borrowers is disclosed in Note 29, credit risk analysis is presented in Note 30, foreign currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is presented in Note 33. The estimated fair value of loans to banks and other borrowers is presented in Note 35.

10 Internal state debt

	2014	2013
	<i>(in UAH millions)</i>	
Internal state debt in respect of loans to government in the national currency:		
1994–1996	<u>2,180</u>	<u>2,268</u>
Total internal state debt	<u>2,180</u>	<u>2,268</u>

Loans in the national and foreign currencies were granted by the NBU in the period of 1991–1996 to finance the State Budget deficits. In accordance with the Law of Ukraine “On Restructuring the Debt Liabilities of the Cabinet of Ministers of Ukraine to the National Bank of Ukraine” (hereinafter, the “Law on Restructuring”), the loans in the national currency granted in the period of 1994–1996 totalling UAH 3,439 million were restructured in 2000 and included in the internal state debt. The internal state debt is not secured.

In accordance with the Law on Restructuring, the amount of the internal state debt of Ukraine in respect of the loans granted in the period of 1994–1996 in the national currency is due to be repaid by equal quarterly installments, with the interest payment of 5% per annum for debt servicing during the period of 2010–2035. In 2014, the internal state debt of Ukraine in the national currency was repaid in the amount of UAH 132 million (2013: UAH 132 million). Interest income on the loans to Government in the national currency was recognized in the consolidated statement of comprehensive income.

As at 1 January 2013, the NBU recognized the internal state debt at amortized cost determined by discounting future cash flows and adjusted the carrying value of the internal state debt by recognizing the discount of UAH 687 million.

As at 31 December 2014, the internal state debt in the amount of UAH 132 million was expected to be recovered within 12 months and the remaining part of the internal state debt was expected to be recovered later than in 12 months (31 December 2013: the internal state debt in the amount of UAH 132 million was expected to be recovered within 12 months and the remaining part of the internal state debt was expected to be recovered later than in 12 months).

Geographical concentration risk analysis of the internal state debt is disclosed in Note 29, foreign currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is presented in Note 33. Estimated fair value of the internal state debt is disclosed in Note 35.

11 IMF quota contributions

The quota balance is a special type asset which represents Ukraine’s subscription as a member of the IMF. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member’s voting power in the Fund, the limits of access to financial resources of the Fund, and a participant’s share in the allocation of SDRs, the Fund’s unit of account. The major part of Ukraine’s quota was paid in the form of non-interest-bearing promissory notes issued to the IMF by the Ministry of Finance and the NBU in favor of the IMF, with the remainder being credited to the IMF accounts No. 1 and No. 2 (Note 17). As at 31 December 2014, Ukraine’s quota in the IMF amounted to SDR 1,372 million (UAH 31,344 million at the year-end official UAH/SDR exchange rate) (31 December 2013: SDR 1,372 million, or UAH 16,945 million at the year-end official UAH/SDR exchange rate). The quota does not earn interest and is a non-current asset.

12 Property and equipment and intangible assets

	Buildings and structures	Vehicles	Machinery and equipment	Tools, fixtures, and fittings	Other property and equipment	Construction in progress	Intangible assets	Total
	<i>(in UAH millions)</i>							
Net book value as at 1 January 2013	4,875	87	1,349	50	103	370	93	6,927
Additions	40	36	205	8	13	221	177	700
Acquisition of subsidiary	67	1	1	1	–	2	3	75
Disposals	–	–	(2)	–	–	–	–	(2)
Transfers to other categories	87	2	(121)	–	2	34	(4)	–
Amortization (depreciation) charges	(131)	(21)	(251)	(9)	(18)	–	(39)	(469)
Initial value as at 31 December 2013	6,170	231	2,700	145	276	627	389	10,538
Depreciation as at 31 December 2013	(1,232)	(126)	(1,519)	(95)	(176)	–	(159)	(3,307)
Net book value as at 31 December 2013	4,938	105	1,181	50	100	627	230	7,231
Additions	9	2	1,188	2	10	101	48	1,360
Disposals	–	(2)	(2)	–	(1)	(4)	–	(9)
Transfers to other categories	50	–	280	1	6	(336)	(1)	–
Impairment	(695)	(5)	(31)	(18)	(39)	(10)	–	(798)
Amortization (depreciation) charges	(157)	(24)	(290)	(9)	(17)	–	(91)	(588)
Initial value as at 31 December 2014	6,249	207	4,108	148	289	388	435	11,824
Depreciation as at 31 December 2014	(2,104)	(131)	(1,782)	(122)	(230)	(10)	(249)	(4,628)
Net book value as at 31 December 2014	4,145	76	2,326	26	59	378	186	7,196

Initial value of fully depreciated property and equipment which are still in operation amounted to UAH 1,015 million as at 31 December 2014 (31 December 2013: UAH 859 million).

Property and equipment and intangible assets are non-current assets.

Considering the temporary occupation of the Autonomous Republic of Crimea and the city of Sevastopol, as well as certain areas of Donetsk and Luhansk regions in 2014, the NBU recognized the impairment of non-current assets of the National Bank of Ukraine in the amount of UAH 798 million in respect of its assets that are impossible to use.

13 Other assets

	2014	2013
	<i>(in UAH millions)</i>	
Other financial assets		
Loans to the NBU employees and other accounts receivable – neither past due nor impaired	537	345
Property rights under loan agreements repossessed by the National Bank of Ukraine	18	14
Other	462	53
Provision for other financial assets	(54)	(1)
Total other financial assets	<u>963</u>	<u>411</u>
Other non-financial assets		
Investment metals	1,869	632
Current tangible assets	429	303
Advance payments	449	806
Precious metals and jewelry	310	184
Commemorative and bullion coins, souvenirs and other products	206	253
Investments in associates	95	99
Other	-	15
Provision for other assets	-	(10)
Total other non-financial assets	<u>3,358</u>	<u>2,282</u>
Total other assets	<u>4,321</u>	<u>2,693</u>

Other financial assets are not secured.

Changes in the provision for other assets were as follows:

	2014	2013
	<i>(in UAH millions)</i>	
Provision for other assets at the beginning of the year	11	10
Provision charge during the year (Note 27)	52	1
Write-off of assets against provisions	(9)	-
Provision for other assets at the end of the year	<u>54</u>	<u>11</u>

At 31 December 2014, investments in associates included the following:

Name of entity	Country of registration	Type of activity	2014		2013	
			Carrying amount	Interest (%)	Carrying amount	Interest (%)
<i>(in UAH millions)</i>						
German-Ukrainian Fund Public Joint-Stock Company	Ukraine	Financial institution of special type	64	31.25	70	31.25
“National Depository of Ukraine”	Ukraine	Depository activities	31	25	29	25
Total			<u>95</u>		<u>99</u>	

13 Other assets (continued)

The German-Ukrainian Fund (the “GUF”) was established by the Cabinet of Ministers of Ukraine as represented by the Ministry of Finance, the NBU, and Kreditanstalt für Wiederaufbau (“KfW”) (registered in Germany). The area of core activities of the GUF is improvement of competitiveness of Ukrainian small and medium enterprises by means of their financing through appointed Ukrainian banks using the GUF funds. According to the Charter, the GUF does not have an objective of generating profit. Profit of the GUF is allocated to increase the lending pool for small and medium enterprises.

Public Joint-Stock Company “National Depository of Ukraine” (the “National Depository”) was established by the NBU, the National Commission for Securities and Stock Market, and other participants of the stock market. In accordance with the Charter, the National Depository was established for depository accounting, accounting for securities and corporate transactions of the issuers on securities accounts of the customers.

The National Depository does not distribute the profit earned among its shareholders. The profit may be allocated only for the purpose of maintaining the National Depository’s activities.

As at 31 December 2014, the NBU owned 2,580 ordinary registered shares in the National Depository with the nominal value of UAH 10,000 each for the total amount of UAH 25.8 million (2013: 2,580 ordinary registered shares in the National Depository with the nominal value of UAH 10,000 each for the total amount of UAH 25.8 million).

Changes in investments in associates were as follows:

	2014	2013
	<i>(in UAH millions)</i>	
Carrying amount of investments at the beginning of the year	99	128
Share of the NBU in profits/(losses) of associates	(4)	6
Disposal of associate	–	(35)
Carrying amount of investments at the end of the year	95	99

Information on total assets and liabilities of associates as at 31 December 2014 and their revenues, expenses, profits, and losses for the years ended 31 December 2014 and 2013 is provided below:

	2014	2013
	<i>(in UAH millions)</i>	
Total assets	697	461
Total liabilities	163	86
Total revenue	75	64
Total expense	81	42
Net (loss)/profit for the year	(6)	22

Considering the temporary occupation of the Autonomous Republic of Crimea and the city of Sevastopol, as well as certain areas of Donetsk and Luhansk regions in 2014, the NBU recognized the revaluation decrease in the carrying value of tangible valuables in the amount of UAH 25 million in respect of its assets that are impossible to use. This amount was included in current tangible assets that include current tangible assets, precious metals and stones, cost of commemorative and bullion coins, souvenirs and other products.

13 Other assets (continued)

All other assets are expected to be recovered within 12 months, except for non-current receivables, investment metals, and investments in associates totaling UAH 2,221 million as at 31 December 2014 (31 December 2013: UAH 1,020 million).

Geographical concentration risk analysis of other financial assets is disclosed in Note 29, credit risk analysis is disclosed in Note 30, foreign currency risk analysis is presented in Note 31, and liquidity risk analysis is presented in Note 33.

14 Accounts of banks

	2014	2013
	<i>(in UAH millions)</i>	
Correspondent accounts:		
in the national currency	27,528	33,025
Term deposits:		
in foreign currencies	444	–
Reserve requirements kept on separate accounts with the NBU	265	10,923
Accounts of banks on special use terms:		
in the national currency	323	198
in foreign currencies	335	3,286
Total accounts of banks	<u>28,895</u>	<u>47,432</u>

Term deposits in foreign currencies are represented by accounts of banks in foreign currencies received as collateral under refinancing loans.

Reserve requirements are accounted for on separate accounts with the NBU and on correspondent accounts in the national currency. As at 31 December 2014 and 2013, reserve requirements were calculated on the basis of a simple average over a monthly period and had to be maintained at the level of 0–15% of certain obligations of banks.

As at 31 December 2014, in accordance with the NBU regulations, banks classified to the category of non-performing, as well as banks with debts to the NBU (under the loans to support liquidity/stabilization loans for programs of financial recovery programs, and the loans to retain liquidity), in respect of which a special control procedure is applied by assigning a supervisor to the bank, should maintain on the separate accounts with the NBU 20% of all required provisions created for the previous reporting period in accordance with the regulatory requirements for the relevant period, while the rest banks should create and retain reserve requirements on the correspondent accounts with the NBU (as at 31 December 2013, in accordance with the NBU regulations, banks were required to maintain on the separate accounts with the NBU 40% of the amount of reserve requirements for the previous reserving period). In addition, as at 31 December 2014, banks were required to maintain on a daily basis, at the beginning of the operating day, on the correspondent account with the NBU the amount of not less than 40% (31 December 2013: not less than 60%) of the reserve requirements for the previous reserving period maintained on the correspondent accounts with the NBU.

14 Accounts of banks (continued)

Reserve requirement balances kept by banks on the separate accounts with the NBU as at 31 December 2014 bear interest of 30% (31 December 2013: 30%) of the NBU's discount rate provided that the bank complies with the requirements in respect of provision creation and maintenance. Reserve requirement kept on correspondent accounts were non-interest bearing. As at 31 December 2014, interest on reserve requirement balances kept by banks on the separate accounts with the NBU was not accrued (as at 31 December 2013, accrued interest included into Reserve requirements kept on the separate accounts with the NBU amounted to UAH 16 million).

As at 31 December 2014 and 2013, banks were allowed, in order to meet their requirement relating to reserve requirements created on the correspondent accounts with the NBU, to use DGLBs denominated in foreign currencies in the amount of 10% of their carrying value in UAH equivalent and long-term DGLBs denominated in the national currency with maturity (in accordance with the terms of the initial issue) of more than 3,600 days in the amount of 100% of their carrying value and balances outstanding on the accounts "Correspondent Accounts with Other Banks" and "Accounts of Banks in Settlements" opened with SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS PJSC in the amount of 100%.

Accounts of banks on special use terms as at 31 December 2014 and 2013 included provisions for the funds attracted by banks in foreign currency from non-residents, the funds placed for the purposes of statutory capital creation of newly established banks in the process of registration, the accounts for making settlements by liquidation committees of banks in the process of their liquidation, and the accounts opened for other purposes specified by the laws of Ukraine and the NBU's regulations.

As at 31 December 2014 and 2013, all accounts of banks were maturing within 12 months.

Geographical concentration risk analysis of due to banks is disclosed in Note 29, foreign currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is disclosed in Note 33.

15 Accounts of government and other institutions

	2014	2013
	<i>(in UAH millions)</i>	
Funds of budgets and budget entities	13,572	3,773
Deposit Guarantee Fund	819	80
Other	257	183
Total accounts of government and other institutions	14,648	4,036

The NBU services the accounts of the State Budget of Ukraine and local budgets that are consolidated on one treasury account.

In accordance with the Law of Ukraine "On the National Bank of Ukraine", all budget accounts are non-interest bearing.

As at 31 December 2014, accounts of other institutions included balances on the account of the Corporate Non-Government Pension Fund of the NBU in the amount of UAH 4 million (31 December 2013: UAH 20 million).

15 Accounts of government and other institutions (continued)

As at 31 December 2014 and 2013, all accounts of government and other institutions were maturing within 12 months.

Geographical concentration risk analysis of due to government and other institutions is disclosed in Note 29, foreign currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is disclosed in Note 33.

16 Certificates of Deposit issued by the National Bank of Ukraine

The certificates of deposit issued by the NBU is one of its monetary policy instruments. This is a debt security issued by the NBU in a non-documentary form evidencing the placement of banks' funds with the NBU and the right of banks to receive on maturity the funds placed, together with the interest accrued.

In 2014 and 2013, transactions on placements of certificates of deposit were performed under agreements with banks for the period of one day (overnight deposits) and up to 90 days.

As at 31 December 2014, the nominal value of certificates of deposit issued by the NBU was UAH 1 million each, with the initial period of placement from 6 to 45 days and weighted average yield of 10.31% per annum (31 December 2013: weighted average yield of 2.06% per annum and the initial period of placement from 3 to 29 days). The weighted average interest rate for the certificates of deposit placed in 2014 was 5.68% per annum, and the initial period of placement varied from 1 to 85 days (2013: weighted average yield of 2.05% per annum and the initial period of placement varied from 1 to 85 days).

As at 31 December 2014 and 2013, all certificates of deposit issued by the NBU were maturing within 12 months.

Foreign currency risk analysis of the certificates of deposit is disclosed in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is disclosed in Note 33.

17 Liabilities to the IMF

	2014	2013
	<i>(in UAH millions)</i>	
IMF accounts No. 1 and No. 2	79	43
Liabilities to the IMF in respect of SDR allocation	1,861	1,006
Liabilities to the IMF on settlement of quota	31,265	16,902
Liabilities to the IMF in respect of purchases of SDRs	32,410	13,189
Total liabilities to the IMF	65,615	31,140

IMF account No. 1 is the IMF account with the NBU in the national currency that is used for transactions with the IMF related to utilization and repayment of the IMF loans. IMF account No. 2 is the IMF account with the NBU in the national currency that is used by the IMF for receipts and administrative disbursements in UAH in the territory of Ukraine.

Liabilities to the IMF in respect of SDR allocation represent the funds received by the NBU in respect of special SDR allocation.

17 Liabilities to the IMF (continued)

Liabilities to the IMF on settlement of quota represent the liability on settlement of quota contribution. They also include the liability of the Ministry of Finance of Ukraine to the IMF on settlement of quota contribution totaling UAH 2,511 million as at 31 December 2014 (31 December 2013: UAH 2,511 million).

Liabilities to the IMF in respect of purchases of SDR represent the loans received from the IMF by the NBU. During 2014, liabilities to the IMF increased at the cost of proceeds from the IMF in the amount of SDR 1,033 million (UAH 19,033 million at the official exchange rate at the date of the transaction) (31 December 2013, no funds from the IMF were received). During 2014, there was repayment of liabilities to the IMF in the amount of SDR 679 million (UAH 11,587 million at the official exchange rate at the date of the transaction, or UAH 10,332 million at the IMF's annual exchange rate) (2013: in the amount of SDR 2,009 million (UAH 24,470 million at the official exchange rate at the date of the transaction, or UAH 24,394 million at the IMF's annual exchange rate)) (Note 7).

All liabilities to the IMF are non-current, except for balances on the IMF accounts No. 1 and No. 2 and the liability to the IMF in respect of SDR allocation, which may be used by Government at any time upon its request.

Geographical concentration risk analysis of liabilities to the IMF is disclosed in Note 29, foreign currency risk analysis is presented in Note 31, interest rate risk analysis is presented in Note 32, and liquidity risk analysis is disclosed in Note 33.

18 Other liabilities

	2014	2013
	<i>(in UAH millions)</i>	
Other financial liabilities		
Current accounts of employees	879	1,242
Accounts payable	131	66
Provision for unused vacations	97	28
Total other financial liabilities	<u>1,107</u>	<u>1,336</u>
Other non-financial liabilities		
Provision for contingent liabilities	219	–
Taxes payable	8	10
Deferred income	12	12
Other	–	3
Total other non-financial liabilities	<u>239</u>	<u>25</u>
Total other liabilities	<u>1,346</u>	<u>1,361</u>

As at 31 December 2014 and 2013, all other liabilities were current.

Provisions for contingent liabilities comprise the provisions created for the loss of cash stored in cash reserves, currency handling offices, and automated telling machines of the NBU's Head Office in the Autonomous Republic of Crimea, the NBU's offices in Donetsk and Luhansk regions, considering the exceptionally challenging situation as a result of temporary occupation of the Autonomous Republic of Crimea and certain territories of Donetsk and Luhansk regions, which makes it impossible for the NBU's offices to operate in the said territories.

18 Other liabilities (continued)

Geographical concentration risk analysis of other financial liabilities is provided in Note 29, foreign currency risk analysis is provided in Note 31, and liquidity risk analysis is provided in Note 33.

19 Liabilities on profit distribution to the State Budget of Ukraine

The National Bank determines distributable profit in accordance with Article 5-1 of the Law of Ukraine “On the National Bank of Ukraine”, which became effective starting from 1 January 2012.

A part in distributable profit that is payable to the State Budget of Ukraine upon confirmation by an external auditor and approval by the NBU’s Council shall be transferred in the year following the reporting year in accordance with the Law of Ukraine “On the National Bank of Ukraine”.

The Law of Ukraine “On the State Budget of Ukraine for 2015” amended the Law of Ukraine “On the National Bank of Ukraine” entitled the National Bank of Ukraine with the right in the first quarter of 2015 to transfer to the State Budget of Ukraine the profits in the amount of not more than 25 percent of the annual profits.

Liabilities on profit distribution to the State Budget of Ukraine for 2014 is presented in the calculation below:

	2014	2013
	<i>(in UAH millions)</i>	
Profit for the year attributable to the National Bank of Ukraine per the consolidated statement of comprehensive income	96,079	14,779
(Transfers)/compensation of unrealized result on revaluation of assets and liabilities in foreign currency and monetary gold to revaluation reserve	(34,042)	8,435
Transfers of unrealized result on revaluation of securities to revaluation reserve	(242)	–
Compensation of unrealized losses on revaluation of securities at the cost of revaluation reserve for assets and liabilities	–	421
Realized result on disposals of investment metals	119	34
Realized result on revaluation of securities and futures sold	292	–
Adjustment for negative results of subsidiaries	61	103
Distributable profit for the year	62,267	23,772
Allocations to general and other reserves of the National Bank of Ukraine		–
Retained earnings for the year	(464)	(11,886)
Recognition of liabilities on distribution to the State Budget at the cost of:		
part in distributable profit	61,803	11,886
Liabilities on profit distribution to the State Budget of Ukraine	61,803	11,886

In 2014, the National Bank of Ukraine transferred UAH 22,807 million to the State Budget of Ukraine, of which UAH 11,886 million, pursuant to the Law of Ukraine “On the National Bank of Ukraine”, was recognized as liability on profit distribution to the State Budget of Ukraine for 2014, UAH 9,884 million was transferred based on the Resolution of the Council of the National Bank of Ukraine upon approval of the Report on the Budget Performance by the NBU for 2013, and UAH 1,037 million was transferred at the cost of balance of realized result on revaluation of foreign currency, monetary gold, and investment metals of prior periods (2013: the National Bank of Ukraine transferred UAH 28,308 million to the State Budget of Ukraine).

20 Capital management

Capital of the NBU comprises the residual value of the NBU's assets after deduction of its liabilities.

No external capital requirements exist for the NBU as a central bank, except for the size of the statutory capital stipulated by the Law of Ukraine "On the National Bank of Ukraine".

In accordance with the Law of Ukraine "On the National Bank of Ukraine", the amount of statutory capital of the NBU should be UAH 10 million. The amount of statutory capital may be increased based on the decision of the NBU's Council.

Based on the results for the year ended 31 December 2007, the NBU's Council approved the increase in the statutory capital of the NBU to UAH 100 million.

In accordance with the Law of Ukraine "On the National Bank of Ukraine", the creation of general reserves and other funds should be performed out of distributable profit of the NBU based on the decisions of the NBU's Board.

The NBU's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the NBU and ability to perform its functions. The NBU's management considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital managed by the NBU as at 31 December 2014 was UAH 80,513 million (31 December 2013: UAH 56,116 million).

Objectives and policies of managing the components of the NBU's capital are defined by the respective internal regulations approved by the NBU Board.

A part in distributable profit, as determined by the Law of Ukraine "On the National Bank of Ukraine", shall be allocated to general and other reserves of the NBU.

The amount of profit allocated to create other provisions of the NBU for the purposes of securing investments in acquisition, construction, improvements of non-current tangible and intangible assets and covering social needs of the NBU's employees is defined within the limits provided in the NBU's budget under the respective items.

Revaluation reserve for assets and liabilities includes the gain/(loss) arising on the revaluation of monetary assets and liabilities denominated in foreign currencies, monetary gold, and investment metals due to the changes in exchange rates of UAH to foreign currency, monetary gold, and investment metals and due to changes in the fair value of financial assets.

The composition of the NBU's equity as at 31 December 2014 is presented as follows:

	2014	2013
	<i>(in UAH millions)</i>	
Statutory capital	100	100
General reserves	14,622	13,443
Other reserves	8,907	8,145
Retained earnings	464	11,886
Provision for revaluation of assets and liabilities	56,420	22,542
Total equity	80,513	56,116

21 Cash and cash equivalents

	Notes	2014	2013
		<i>(in UAH millions)</i>	
Foreign currency cash	<u>5</u>	1,135	598
Demand deposits (other than gold, investment metals, and restricted funds)	<u>5</u>	10,001	25,683
Short-term deposits with maturities up to three months (other than gold, investment metals, and restricted funds)		6,017	25,819
SDR holdings	<u>7</u>	59	128
Accounts of banks on demand (net of interest accrued)	<u>14</u>	(28,451)	(47,416)
Accounts of government and other institutions	<u>15</u>	(14,648)	(4,036)
IMF accounts No. 1 and No. 2	<u>17</u>	(79)	(43)
Liabilities to the IMF in respect of SDR allocation	<u>17</u>	(1,861)	(1,006)
Employee's current accounts	<u>18</u>	(879)	(1,242)
Total cash and cash equivalents		<u>(28,706)</u>	<u>(1,515)</u>

22 Interest income and expense

	2014	2013
	<i>(in UAH millions)</i>	
Interest income		
Income on domestic securities	26,503	15,406
Income on loans to banks and other borrowers	10,708	5,555
Income on accounts and deposits in foreign currency	131	157
Income on internal state debt	187	194
Other	100	19
Total interest income	<u>37,629</u>	<u>21,331</u>
Interest expense		
Expense on operations with the IMF	(291)	(463)
Expense on accounts of banks	(127)	(152)
Expense on certificates of deposit issued by the NBU	(696)	(161)
Expenses on accounts of the Deposit Guarantee Fund	(63)	(17)
Other	(142)	(203)
Total interest expense	<u>(1,319)</u>	<u>(996)</u>
Net interest income	<u>36,310</u>	<u>20,335</u>

Other interest income includes interest income on the loans to employees and interest expense includes expenses on accounts of employees. During 2014, interest received and interest paid, which are included in cash flows from operating activities in the consolidated statement of cash flows, amounted to UAH 31,409 million (2013: UAH 21,894 million) and UAH 1,088 million (2013: UAH 1,103 million), respectively.

In 2014, income on loans to banks and other borrowers included income on impaired loans in the amount of UAH 3,329 million (2013: UAH 2,340 million), including the adjustment of interest income on impaired loans to banks in the amount of UAH 1,979 million (2013: UAH 398 million) (Note 9).

23 Fee and commission income and expense

	2014	2013
	<i>(in UAH millions)</i>	
Fee and commission income		
Income on cash and settlement services	288	209
Income on services of electronic payment systems and electronic mail	141	149
Income on transactions with financial instruments	2	4
Income on valuables transportation services	2	3
Other	3	2
Total fee and commission income	<u>436</u>	<u>367</u>
Fee and commission expense		
Expense on transactions with financial instruments	(15)	(11)
Other	(1)	–
Total fee and commission expense	<u>(16)</u>	<u>(11)</u>
Net fee and commission income	<u>420</u>	<u>356</u>

24 Other income

	2014	2013
	<i>(in UAH millions)</i>	
Income on sale of bullion and commemorative coins, souvenirs and other products	333	230
Gain on derecognition of financial assets	74	81
Income on activities of educational institutions	30	30
Fines, penalties, and forfeits received	23	26
Gain on disposal of property and equipment and intangible assets	2	9
Income on registration and licensing	4	6
Income on management of credit lines	3	2
Other	69	52
Total other income	<u>538</u>	<u>436</u>

Included in other income are income on investments in associates, social and consumer services, sales of precious metals scrap, other services, printed materials, etc.

25 Staff costs

	2014	2013
	<i>(in UAH millions)</i>	
Payroll of staff	1,436	1,328
Single contribution for mandatory state social security and contributions to non-government pension funds	651	701
Financial aid and other social benefits	130	124
Other	31	85
Total staff costs	<u>2,248</u>	<u>2,238</u>

Included in other staff costs are staff training and development costs, expenditure for special clothes, footwear and other means of protection, the NBU's employees housing expenses, and other costs.

26 Administrative and other expenses

	2014	2013
	<i>(in UAH millions)</i>	
Depreciation and amortization	420	331
Taxes, duties, and charges	129	3
Utilities and household expenses	122	150
Expenses for maintenance of non-current tangible and intangible assets	107	120
Goodwill impairment	–	52
Telecommunication services and maintenance	38	37
Operating expenses of educational institutions	27	29
Fines and penalties paid	16	18
Business trips	13	20
Stationery	3	3
Other	76	84
Total administrative and other expenses	951	847

The depreciation and amortization charges for 2014 exclude depreciation of UAH 168 million (2013: UAH 138 million) in respect of property and equipment used in the production of banknote paper, banknotes, coins, and other products. This portion of the depreciation and amortization charges is included in the expenses for production of banknotes, coins and other products.

Other expenses include financial aid paid to retired employees, postal and mail, representation, audit costs, etc.

27 Net (increase)/decrease in provisions

	Notes	2014	2013
		<i>(in UAH millions)</i>	
(Increase)/decrease in provisions for:			
Loans to banks and other borrowers	9	(26,856)	538
Other assets	13	(52)	(1)
Total net (increase)/decrease in provisions		(26,908)	537

28 Financial risk management**Risk management objectives of the NBU are as follows:**

- Ensure that the NBU's risks are continuously kept at a secure level;
- Ensure effective management of assets and liabilities of the NBU, in particular, prevention of inadequate use of funds;
- Ensure maintenance of the NBU's assets' liquidity at the required level;
- Comply with the limits set by the legislation, as well as with principles, internal rules, procedures, and limits defined by the NBU regulations, in the course of assets and liabilities management;
- Provide the NBU's management on a timely basis with adequate information (reports) on risk management positions in respect of assets and liabilities of the NBU.

28 Financial risk management (continued)**Main principles of financial risk management of the NBU are as follows:**

Financial risk management is aimed at full avoidance or mitigation of the effect of risks inherent in assets and liabilities of the NBU on the NBU's cash flows and equity, with reference to the NBU's risk appetite as defined by the Ukrainian legislation and the NBU regulations;

Acceptable level of financial risks of the NBU is defined by the NBU's Board and Assets and Liabilities Management Committee of the NBU;

Control over compliance with the acceptable level of financial risks of the NBU is exercised by management of structural divisions at the NBU and Risk Management Department of the NBU.

Financial risk management of the NBU is carried out through setting quantitative limits and qualitative restrictions and conditions as provided by the NBU regulations. Monthly reports on compliance with these limits and restrictions are prepared by Risk Management Department and submitted to the NBU's management.

To cover potential losses from realization of financial risks of the NBU attributable to performance of the NBU's functions, provisions are created in accordance with specific regulations.

Principal types of financial risks inherent in the NBU's activities are credit, foreign currency, interest rate, and liquidity risks.

Credit risk

Credit risk is the risk to incur losses in the event a counterparty fails to perform its financial obligations to the NBU.

Credit risk is inherent in the operations of the NBU with funds of international reserves through placement of the funds on correspondent accounts and term deposits with foreign banks, investments into foreign securities denominated in foreign currencies, investments into domestic securities, and lending to banks and other borrowers.

The NBU's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For loan commitments, the maximum exposure to credit risk is the amount of the commitment (Note 34).

Credit risk management of the NBU is performed through the following actions:

- Defining the minimum acceptable credit ratings of counterparties, securities, and their issuers;
- Setting long-term credit limits for the funds placements by a counterparty bank and a security issuer;
- Setting short-term credit limits on total exposures to counterparty banks;
- Setting limits on standard duration (average maturity) level for the placements of funds by currency and type of financial instruments;
- Performing open market operations through secured lending and repo and swap operations;
- Monitoring participating banks' compliance with eligibility criteria defined by the respective credit line agreements;
- Monitoring creditworthiness of counterparty banks.

28 Financial risk management (continued)

Geographical analysis of the NBU's placements (Note 29) shows that, in 2014, the share of the NBU's financial assets placed with counterparties in the OECD countries in the total amount of financial assets decreased from 39% as at 31 December 2013 to 19% as at 31 December 2014, primarily, as a result of decrease in the amount of gold and foreign currency reserves and increase in the amount of assets denominated in UAH.

Foreign currency risk

Foreign currency risk is the risk to incur losses as a result of unfavorable changes in exchange rates of UAH to foreign currencies.

The NBU is exposed to foreign currency risk through the open currency positions in the consolidated statement of financial position due to management of the international reserves.

The level of foreign currency risk of the NBU was assessed using Value-at-Risk (VaR) method by calculating the risk value of open currency position of the consolidated statement of financial position, including international reserves, as possible change in their UAH equivalent at 95% confidence level with time horizon of one business day, ten business days, and one month. In order to increase prudence in measuring currency risk, VaR model calculation parameters were changed in 2014. In particular, for the calculation of correlation between exchange rates of UAH to foreign currencies and prices of the monetary gold and investment metals in UAH which are treated as components of the open currency position of the consolidated statement of financial position, and volatility of exchange rates of different currencies and prices of monetary gold and investment metals in UAH, data from 1 January 2008 (2013: from 1 January 2008) are taken into account. VaR and the ratio of open currency position to the consolidated equity of the NBU as at 31 December 2014 were recalculated accordingly.

During 2014, the risk value of open currency position of the consolidated statement of financial position on Day 1 horizon increased from 0.73% as at 31 December 2013 to 1.22% as at 31 December 2014 of the UAH value of position, on ten day horizon increased from 2.63% as at 31 December 2013 to 3.84% as at 31 December 2014, and on one month horizon from 3.33% as at 31 December 2013 to 5.57% as at 31 December 2014.

The decrease during 2014 in risk value of open currency position of the NBU in percentage terms by 8.8% on the above specified horizons of VaR measurement is, by 73.4%, explained by the decrease in the value of open currency position and changes in its structure; by 107.5%, mainly by the significant decrease in the exchange rate of UAH to foreign currencies and price for investment metals; by 45.9%, by increase in the volatility of the exchange rate of UAH to foreign currencies; and, by 13.3%, by increase in the correlation between changes in the exchange rates of UAH to foreign currencies.

In the process of risk value assessment of the open currency position of the consolidated statement of financial position, including the international reserves, in 2014, the NBU performed monthly analysis of the level of impact of specific currency positions on formation of the risk value, as well as changes in the amounts and exchange rates of specific currencies, correlation of fluctuations of the exchange rates, ratio of the currencies with high volatility and low volatility against UAH.

For the purposes of analyzing possible future levels of the foreign currency risk, the NBU performed stress-testing to investigate the level of impact of possible financial market turbulence on the value of international reserves of the NBU as a result of crisis situations.

28 Financial risk management (continued)

Foreign currency risk of the NBU is managed through the following actions:

Defining the standard currency composition of the NBU's international reserves as a range of allowed fluctuation in share of each currency within the NBU's international reserves;

Taking into account the ratio of structural hedging that reflects the decrease of foreign currency risk of part of the assets as a result of the changes that compensate the currency component values as a result of correlation of the exchange rates and prices for monetary gold and investment metals.

Interest rate risk

Interest rate risk is a risk to incur losses as a result of unfavorable changes in interest rates.

In 2014, the interest rate risk of the NBU, first of all, was determined through sensitivity of the market value of foreign securities representing a part of the international reserves to changes in interest rates. In order to limit the interest rate risk, the NBU managed its securities portfolio taking into account standard indicators, such as securities indices defined separately for the securities portfolio in each currency, and modified duration indicators.

Modified duration of the securities portfolio shows a degree of influence of the market interest rate change on the change of the market value of the portfolio.

During 2014, the modified duration of foreign currency denominated securities portfolio decreased from 2.38% (UAH 23.98 million per one basis point) as at 31 December 2013 to 1.76% (UAH 15.50 million per one basis point) as at 31 December 2014. Specifically, if market interest rates for USD, EUR, and GBP changed by 100 basis points with the foreign securities portfolio held constant, its value as at 31 December 2014 would change by UAH 1,550 million, which would result in the respective adjustment of profit and equity (2013: if market interest rates for USD, EUR, and GBP changed by 100 basis points with the foreign securities portfolio held constant, its value would change by UAH 2,398 million, which would result in the respective adjustment of profit and equity of the National Bank of Ukraine).

Other methods of assessing the level of the NBU's interest rate risk used during the reporting year were analysis of changes in weighted average multi-currency interest margin (spread) between interest rates on assets and liabilities of the NBU, as well as interest rate re-pricing analysis of the consolidated assets and liabilities.

Reports with analysis of modified duration, changes in interest margin, and interest rate re-pricing of the consolidated assets and liabilities are prepared on a monthly basis by Risk Management Department of the NBU. These reports are submitted to and reviewed by top management of the NBU.

Liquidity risk

Liquidity risk is defined as the risk when an entity has no available funds to meet its current liabilities.

28 Financial risk management (continued)

The NBU's management of the liquidity risk is inherent in operations with international reserves and arises, to a significant extent, due to volatility in levels of interventions in the internal foreign currency market envisages four levels of the liquidity support as follows:

Maintain certain levels of international reserve assets in the form of cash on the NBU's correspondent accounts in foreign currency (in accordance with the minimum required and maximum allowed daily levels of cash balances on the NBU's correspondent accounts in foreign currencies, as specified by the respective NBU regulations);

Have highly liquid securities available within the international reserves (by major currencies), with the share of each type of securities not exceeding the levels defined by the respective NBU regulations;

Ensure that the funds placed on term deposits and invested securities (in case the securities are held to maturity) are repaid evenly;

Ensure a possibility to perform conversion operations in case of a necessity to use liquid assets in one currency for compensating the lack of liquidity in another currency.

Liquidity risk is managed through monitoring the compliance with minimum and maximum requirements to liquidity of international reserves as defined in the Investment Declaration.

A detailed analysis of exposures to the above risks is disclosed in Notes from 29 to 33.

29 Analysis of financial assets and liabilities by geographical concentration risk

Geographical concentration risk analysis of the NBU's financial assets and liabilities as at 31 December 2014 was as follows:

	Ukraine	OECD countries	IMF	Other	Total
	<i>(in UAH millions)</i>				
Financial assets					
Funds and deposits in foreign currencies	1,135	16,203	–	–	17,338
Foreign securities	–	88,117	–	1	88,118
SDR holdings	–	–	59	–	59
Domestic securities	330,774	–	–	–	330,774
Loans to banks and other borrowers	81,573	–	–	–	81,573
Internal state debt	2,180	–	–	–	2,180
IMF quota contributions	–	–	31,344	–	31,344
Other financial assets	963	–	–	–	963
Total financial assets	416,625	104,320	31,403	1	552,349
Financial liabilities					
Banknotes and coins in circulation	304,811	–	–	–	304,811
Accounts of banks	28,895	–	–	–	28,895
Accounts of government and other institutions	14,648	–	–	–	14,648
Certificates of deposit issued by the NBU	19,609	–	–	–	19,609
Liabilities to the IMF	–	–	65,615	–	65,615
Other financial liabilities	1,107	–	–	–	1,107
Total financial liabilities	369,070	–	65,615	–	434,685
Net balance sheet position	47,555	104,320	(34,212)	1	117,664
Off-balance sheet commitments					
Commitments to extend credit	(2,790)	–	–	–	(2,790)
Net off-balance sheet position (Note 34)	(2,790)	–	–	–	(2,790)
Net position	44,765	104,320	(34,212)	1	114,874

29 Analysis of financial assets and liabilities by geographical concentration risk (continued)

Geographical concentration risk analysis of the NBU's financial assets and liabilities as at 31 December 2013 was as follows:

	Ukraine	OECD countries	IMF	Other	Total
	<i>(in UAH millions)</i>				
Financial assets					
Funds and deposits in foreign currencies	598	52,310	–	–	52,908
Foreign securities	–	100,099	–	481	100,580
SDR holdings	–	–	128	–	128
Domestic securities	154,134	–	–	–	154,134
Loans to banks and other borrowers	66,998	–	–	–	66,998
Internal state debt	2,268	–	–	–	2,268
IMF quota contributions	–	–	16,945	–	16,945
Other financial assets	411	–	–	–	411
Total financial assets	224,409	152,409	17,073	481	394,372
Financial liabilities					
Banknotes and coins in circulation	261,870	–	–	–	261,870
Accounts of banks	47,432	–	–	–	47,432
Accounts of government and other institutions	4,033	3	–	–	4,036
Certificates of deposit issued by the NBU	3,126	–	–	–	3,126
Liabilities to the IMF	–	–	31,140	–	31,140
Other financial liabilities	1,321	15	–	–	1,336
Total financial liabilities	317,782	18	31,140	–	348,940
Net balance sheet position	(93,373)	152,391	(14,067)	481	45,432
Off-balance sheet commitments					
Commitments to extend credit	(422)	–	–	–	(422)
Net off-balance sheet position (Note 34)	(422)	–	–	–	(422)
Net position	(93,795)	152,391	(14,067)	481	45,010

30 Credit risk

Financial assets of the NBU are classified by the lowest of the ratings assigned to the NBU's counterparties by the international rating agencies of Fitch IBCA, Moody's, and Standard & Poor's. The ratings are listed below as per coding of the rating agency of Fitch IBCA using the rating correspondence table of Bloomberg information system. Rating AAA+ is the rating used to identify highly reliable international financial institutions such as the Bank for International Settlements.

	Credit rating	2014		2013	
		Amount	% in financial assets	Amount	% in financial assets
<i>(in UAH millions)</i>					
Financial assets – neither past due nor impaired:					
Funds and deposits in foreign currencies:					
Demand deposits	AAA	87	0.5	2,035	3.9
	AA+	1,107	6.4	1,080	2.0
	AA-	4,583	26.4	9,958	18.8
	A+	2,916	16.8	12,607	23.8
	A	1,315	7.6	133	0.3
	A-	178	1.0	1	0.0

30 Credit risk (continued)

	Credit rating	2014		2013	
		Amount	% in financial assets	Amount	% in financial assets
<i>(in UAH millions)</i>					
Term deposits	AAA	3,438	19.8	6,361	12.0
	AA+	2	0.0	–	–
	AA	–	–	–	–
	AA-	2,442	14.1	2,076	3.9
	A+	–	–	1,486	2.8
	A	–	–	4,952	9.4
	A-	135	0.8	11,621	22.0
Foreign currency cash	Riskless	1,135	6.6	598	1.1
Total funds and deposits in foreign currencies:		17,338	100.0	52,908	100.0
Foreign securities:					
Government bonds	AAA	6,771	7.7	12,784	12.7
	AA+	44,082	50.1	33,664	33.5
	AA-	2,636	3.0	2,143	2.1
Bonds of international agencies, banks, and other issuers	AAA	10,400	11.8	23,845	23.8
	AA+	4,789	5.4	6,558	6.5
	AA	269	0.3	440	0.4
	AA-	13,353	15.2	19,552	19.5
	A+	4,151	4.7	520	0.5
	A	1,546	1.8	953	1.0
Total foreign debt securities		87,997	100.0	100,459	100.0
Domestic securities	CCC-	325,722	98.5	–	–
	CCC+	–	–	146,861	95.3
	Not rated	5,052	1.5	7,273	4.7
Total domestic securities		330,774	100.00	154,134	100.0
Loans to banks and other borrowers:					
Loans granted to banks to support their liquidity and loans granted to the Deposit Guarantee Fund	B-	–	–	254	0.5
	CCC+	–	–	36,930	70.5
	CCC	1,365	2.0	–	–
	CC	46,728	69.8	–	–
	Not rated	18,914	28.2	15,219	29.0
Total loans to banks and other borrowers		67,007	100.0	52,403	100.0
Other financial assets	Not rated	963	100.0	411	100.0

Total amount of loans to five banks with the largest exposure outstanding as at 31 December 2014 was UAH 68,572 million (31 December 2013: UAH 52,066 million), or 55% (31 December 2013: 65%) of the total amount of loans to banks and other borrowers before provisioning. Recognized provision for loans granted to those five banks was equal to UAH 24,515 million as at 31 December 2014 (31 December 2013: UAH 6,765 million).

Domestic securities that have no international rating assigned are represented by bonds of government institutions the rating of which is limited by the sovereign rating of Ukraine.

31 Foreign currency risk

As at 31 December 2014, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
								(in UAH millions)
Financial assets								
Funds and deposits in foreign currencies	–	9,609	1,644	–	1,104	4,981	–	17,338
Foreign securities	–	69,206	16,020	–	2,368	403	121	88,118
SDR holdings	–	–	–	59	–	–	–	59
Domestic securities	325,871	3,359	1,544	–	–	–	–	330,774
Loans to banks and other borrowers	81,573	–	–	–	–	–	–	81,573
Internal state debt	2,180	–	–	–	–	–	–	2,180
IMF quota contributions	–	–	–	31,344	–	–	–	31,344
Other financial assets	963	–	–	–	–	–	–	963
Total financial assets	410,587	82,174	19,208	31,403	3,472	5,384	121	552,349
Financial liabilities								
Banknotes and coins in circulation	304,811	–	–	–	–	–	–	304,811
Accounts of banks	28,116	718	61	–	–	–	–	28,895
Accounts of government and other institutions	3,905	316	10,255	–	–	172	–	14,648
Certificates of deposit issued by the NBU	19,609	–	–	–	–	–	–	19,609
Liabilities to the IMF	–	–	–	65,615	–	–	–	65,615
Other financial liabilities	1,032	4	11	–	–	60	–	1,107
Total financial liabilities	357,473	1,038	10,327	65,615	–	232	–	434,685
Net balance sheet position	53,114	81,136	8,881	(34,212)	3,472	5,152	121	117,664

As at 31 December 2013, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
								(in UAH millions)
Financial assets								
Funds and deposits in foreign currencies	–	38,650	5,208	–	1,741	7,309	–	52,908
Foreign securities	–	64,694	22,273	–	5,990	7,502	121	100,580
SDR holdings	–	–	–	128	–	–	–	128
Domestic securities	152,340	954	840	–	–	–	–	154,134
Loans to banks and other borrowers	66,998	–	–	–	–	–	–	66,998
Internal state debt	2,268	–	–	–	–	–	–	2,268
IMF quota contributions	–	–	–	16,945	–	–	–	16,945
Other financial assets	411	–	–	–	–	–	–	411
Total financial assets	222,017	104,298	28,321	17,073	7,731	14,811	121	394,372
Financial liabilities								
Banknotes and coins in circulation	261,870	–	–	–	–	–	–	261,870
Accounts of banks	44,146	2,872	344	–	–	70	–	47,432
Accounts of government and other institutions	1,893	2,012	131	–	–	–	–	4,036
Certificates of deposit issued by the NBU	3,126	–	–	–	–	–	–	3,126
Liabilities to the IMF	–	–	–	31,140	–	–	–	31,140
Other financial liabilities	1,318	2	16	–	–	–	–	1,336
Total financial liabilities	312,353	4,886	491	31,140	–	70	–	348,940
Net balance sheet position	(90,336)	99,412	27,830	(14,067)	7,731	14,741	121	45,432

Assets and liabilities in other currencies mainly included positions in CHF, AUD, and JPY.

32 Interest rate risk

As at 31 December 2014, the NBU had the following structure of the weighted average interest rates by major currencies for monetary financial interest-bearing instruments. The analysis has been prepared using the weighted-average contractual rates.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in OECD countries	–	0.10	0.00	–	0.00	0.11	0.11
Foreign securities	–	0.64	0.24	–	0.60	2.22	0.57
SDR holdings	–	–	–	0.05	–	–	0.05
Domestic securities	12.92	7.33	4.95	–	–	–	12.83
Loans to banks and other borrowers	15.76	–	–	–	–	–	15.76
Internal state debt	5.00	–	–	–	–	–	5.00
Financial liabilities							
Reserve requirements kept on separate accounts with the NBU	–	–	–	–	–	–	–
Deposit Guarantee Fund	5.04	–	–	–	–	–	5.04
Certificates of deposit issued by the NBU	10.31	–	–	–	–	–	10.31
Liabilities to the IMF in respect of purchases of funds under credit facilities	–	–	–	1.05	–	–	1.05

The sign “–” in the table above means that the NBU has no respective interest bearing assets or liabilities in corresponding currency.

Interest is accrued at floating rates on SDR holdings and liabilities to the IMF.

Interest on foreign securities is accrued at both variable and fixed rates.

As at 31 December 2013, the NBU had the following structure of the weighted average interest rates by major currencies for monetary financial interest-bearing instruments. The analysis has been prepared using the weighted-average contractual rates.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in OECD countries	–	0.19	0.23	–	0.48	1.26	0.48
Foreign securities	–	0.76	0.71	–	1.25	3.18	0.96
SDR holdings	–	–	–	0.13	–	–	0.13
Domestic securities	11.47	6.65	4.95	–	–	–	11.40
Loans to banks and other borrowers	7.45	–	–	–	–	–	7.45
Internal state debt	5.00	–	–	–	–	–	5.00

32 Interest rate risk (continued)

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial liabilities							
Reserve requirements kept on separate accounts with the NBU	1.95	–	–	–	–	–	1.95
Deposit Guarantee Fund	9.11	–	–	–	–	–	9.11
Certificates of deposit issued by the NBU	2.06	–	–	–	–	–	2.06
Liabilities to the IMF in respect of purchases of funds under credit facilities	–	–	–	1.14	–	–	1.14

Analysis of assets and liabilities by periods of interest rate repricing

The table below summarizes concentration of interest rate rates by periods of repricing categorized by the earlier of contractual repricing or maturity dates.

For financial assets and liabilities with fixed interest rates, classification was determined based on the contractual maturity date from the consolidated statement of financial position date. For assets and liabilities with variable interest rates, classification was determined taking into account the earlier of repricing period or maturity date.

As at 31 December 2014, the NBU's financial assets and liabilities by periods of interest rate repricing were as follows:

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest-bearing	Total
<i>(in UAH millions)</i>							
Financial assets							
Funds and deposits in foreign currencies	10,474	1,839	–	–	–	5,025	17,338
Foreign securities	5,664	12,119	12,755	52,510	4,949	121	88,118
SDR holdings	59	–	–	–	–	–	59
Domestic securities	2,576	5,899	14,951	193,786	113,562	–	330,774
Loans to banks and other borrowers	12,317	31,047	10,196	28,013	–	–	81,573
Internal state debt	–	22	66	363	1,729	–	2,180
IMF quota contributions	–	–	–	–	–	31,344	31,344
Other financial assets	3	1	438	92	423	6	963
Total financial assets	31,093	50,927	38,406	274,764	120,663	36,496	552,349

32 Interest rate risk (continued)

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest- bearing	Total
<i>(in UAH millions)</i>							
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	304,811	304,811
Accounts of banks	–	–	–	–	–	28,895	28,895
Accounts of government and other institutions	819	–	–	–	–	13,829	14,648
Certificates of deposit issued by the NBU	19,259	350	–	–	–	–	19,609
Liabilities to the IMF	32,351	59	–	–	–	33,205	65,615
Other financial liabilities	–	–	–	–	–	1,107	1,107
Total financial liabilities	52,429	409	–	–	–	381,847	434,685
Net gap	(21,336)	50,518	38,406	274,764	120,663	(345,351)	117,664
Cumulative gap	(21,336)	29,182	67,588	342,352	463,015	117,664	

As at 31 December 2013, the NBU's financial assets and liabilities by periods of interest rate repricing were as follows:

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest- bearing	Total
<i>(in UAH millions)</i>							
Financial assets							
Funds and deposits in foreign currencies	47,176	3,488	–	–	–	2,244	52,908
Foreign securities	8,263	11,587	3,114	73,512	3,983	121	100,580
SDR holdings	128	–	–	–	–	–	128
Domestic securities	736	2,995	9,621	105,789	34,993	–	154,134
Loans to banks and other borrowers	7,978	12,299	20,515	25,384	822	–	66,998
Internal state debt	–	68	194	804	1,202	–	2,268
IMF quota contributions	–	–	–	–	–	16,945	16,945
Other financial assets	3	1	5	128	251	23	411
Total financial assets	64,284	30,438	33,449	205,617	41,251	19,333	394,372
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	261,870	261,870
Accounts of banks	–	–	–	–	–	47,432	47,432
Accounts of government and other institutions	126	–	–	–	–	3,910	4,036
Certificates of deposit issued by the NBU	3,126	–	–	–	–	–	3,126
Liabilities to the IMF	13,163	26	–	–	–	17,951	31,140
Other financial liabilities	1,322	4	–	–	–	10	1,336
Total financial liabilities	17,737	30	–	–	–	331,173	348,940
Net gap	46,547	30,408	33,449	205,617	41,251	(311,840)	45,432
Cumulative gap	46,547	76,955	110,404	316,021	357,272	45,432	

32 Interest rate risk (continued)

In the event market interest rates decline by 100 basis points, the impact on profit and equity will be positive in amount of UAH 213 million. The following table presents the sensitivity analysis in respect of changes in interest rate risk. The rate of changes in interest rates applied which is multiplied by the amount of financial assets and liabilities presents the estimated impact on profit/(loss) and equity used for preparing internal reports to key management personnel of the NBU and represents the NBU's management's estimate of acceptable fluctuations in interest rates.

As at 31 December 2014, the National Bank of Ukraine had a negative gap in assets and liabilities bearing variable interest rates in the amount of UAH 21,384 million, which increased in comparison to 31 December 2013 by UAH 25,798 million mainly due to the increased liabilities to the IMF by UAH 19,221 million.

As at 31 December 2013, the National Bank of Ukraine had a positive gap in assets and liabilities bearing variable interest rates in the amount of UAH 4,414 million.

As at 31 December 2014, a portion of foreign securities bearing variable interest rates amounted to 13.38% of the total portfolio (31 December 2013: 17.45%).

The created structure of interest rate positions exposes the NBU to a potential decrease in net interest income and equity on condition market interest rates grow simultaneously. Net impact on profit and equity will be negative in amount of UAH 213 million, provided interest rates increase by 100 basis points (correspondingly, the value of one basis point ("BPV") amounts to UAH 2 million).

	As at 31 December 2014	Basis point value (1 b.p.)	<i>(in UAH millions)</i>	
			Sensitivity of financial assets (+100 b.p.)	Sensitivity of financial assets (-100 b.p.)
Assets susceptible to changes in interest rates				
Foreign securities (variable interest rate)	11,786	1.18	118	(118)
SDR holdings	59	0.01	1	(1)
Total	11,845	1.19	119	(119)
Liabilities susceptible to changes in interest rates				
Funds of the Deposit Guarantee Fund	819	0.08	(8)	8
Liabilities to the IMF	32,410	3.24	(324)	324
Total	33,229	3.32	(332)	332
Gap	(21,384)			
Net impact on profit or loss and equity			(213)	213

32 Interest rate risk (continued)

	As at 31 December 2013	Basis point value (1 b.p.)	Sensitivity of financial assets (+100 b.p.)	Sensitivity of financial assets (-100 b.p.)
Assets susceptible to changes in interest rates				
Foreign securities (variable interest rate)	17,555	1.76	176	(176)
SDR holdings	128	0.01	1	(1)
Total	17,683	1.77	177	(177)
Liabilities susceptible to changes in interest rates				
Funds of the Deposit Guarantee Fund	80	0.01	(1)	1
Liabilities to the IMF	13,189	1.32	(132)	132
Total	13,269	1.33	(133)	133
Gap	4,414			
Net impact on profit or loss and equity			44	(44)

33 Liquidity risk

For the purposes of liquidity risk calculation, assets are analyzed by the period remaining as at the reporting date to repayment of the expected cash flows, and liabilities are analyzed by the remaining contractual maturity at the reporting date.

The amounts of financial liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows may differ from the amounts included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on the discounted cash flows. Derivatives settled on a net basis are included at the net amounts expected to be paid.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

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

33 Liquidity risk (continued)

The NBU's liquidity risk position as at 31 December 2014 is set out below:

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
<i>(in UAH millions)</i>							
Financial assets							
Funds and deposits in foreign currencies	15,499	1,839	–	–	–	–	17,338
Foreign securities	2,400	4,361	18,777	57,510	4,949	121	88,118
SDR holdings	59	–	–	–	–	–	59
Domestic securities	2,576	5,899	14,951	193,786	113,562	–	330,774
Loans to banks and other borrowers	12,317	31,047	10,196	28,013	–	–	81,573
Internal state debt	–	22	66	363	1,729	–	2,180
IMF quota contributions	–	–	–	–	–	31,344	31,344
Other financial assets	3	1	438	92	423	6	963
Total financial assets	32,854	43,169	44,428	279,764	120,663	31,471	552,349
Financial liabilities							
Banknotes and coins in circulation	304,811	–	–	–	–	–	304,811
Accounts of banks	28,895	–	–	–	–	–	28,895
Accounts of government and other institutions	14,648	–	–	–	–	–	14,648
Certificates of deposit issued by the NBU	19,259	350	–	–	–	–	19,609
Liabilities to the IMF	3,474	1,131	6,456	24,275	–	31,265	66,601
Other financial liabilities	1,107	–	–	–	–	–	1,107
Loan commitments	2,790	–	–	–	–	–	2,790
Total future payments under financial liabilities	374,984	1,481	6,456	24,275	–	31,265	438,461
Liquidity gap arising from financial instruments	(342,130)	41,688	37,972	255,489	120,663	206	113,888
Cumulative liquidity gap	(342,130)	(300,442)	(262,470)	(6,981)	113,682	113,888	

The NBU's liquidity risk position as at 31 December 2013 is set out below:

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
<i>(in UAH millions)</i>							
Financial assets							
Funds and deposits in foreign currencies	49,419	3,489	–	–	–	–	52,908
Foreign securities	1,610	2,287	8,886	83,693	3,983	121	100,580
SDR holdings	128	–	–	–	–	–	128
Domestic securities	736	2,995	9,621	105,789	34,993	–	154,134
Loans to banks and other borrowers	7,978	12,299	20,515	25,384	822	–	66,998
Internal state debt	–	68	194	804	1,202	–	2,268
IMF quota contributions	–	–	–	–	–	16,945	16,945
Other financial assets	3	1	5	128	251	23	411
Total financial assets	59,874	21,139	39,221	215,798	41,251	17,089	394,372

33 Liquidity risk (continued)

	On demand and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Maturity not defined	Total
<i>(in UAH millions)</i>							
Financial liabilities							
Banknotes and coins in circulation	261,870	–	–	–	–	–	261,870
Accounts of banks	47,432	–	–	–	–	–	47,432
Accounts of government and other institutions	4,036	–	–	–	–	–	4,036
Certificates of deposit issued by the NBU	3,126	–	–	–	–	–	3,126
Liabilities to the IMF	1,922	1,949	5,687	4,829	–	16,903	31,290
Other financial liabilities	1,322	4	–	–	–	10	1,336
Loan commitments	–	–	422	–	–	–	422
Total future payments under financial liabilities	319,708	1,953	6,109	4,829	–	16,913	349,512
Liquidity gap arising from financial instruments	(259,834)	19,186	33,112	210,969	41,251	176	44,860
Cumulative liquidity gap	(259,834)	(240,648)	(207,536)	3,433	44,684	44,860	

IMF quota contributions and part of liabilities to the IMF representing the liabilities on settlement of quota are included in “maturity not defined” category due to the nature of these balances.

34 Off-balance sheet commitments and derivative financial instruments**Loan commitments**

Loan commitments include the following:

	2014	2013
	<i>(in UAH millions)</i>	
Loan commitments under the loans to support banks' liquidity	<u>2,790</u>	<u>422</u>
Total loan commitments	<u>2,790</u>	<u>422</u>

Loan commitments represent the unused amounts of loans to banks. As regards the credit risk on loan commitments, the NBU is potentially exposed to loss in the amount equal to the total unused loan commitments if the unused amounts were to be drawn down. However, the possible amount of loss is less than the total unused loan commitments since most undrawn loan commitments are contingent upon borrowers' maintaining specific credit standards. The NBU monitors the period to maturity of loan commitments because longer-term commitments generally have a greater degree of credit risk than shorter commitments. Total outstanding contractual amount of undrawn loan commitments does not necessarily represent future cash flows, as those financial instruments may expire or terminate without being funded.

Capital commitments

As at 31 December 2014, the NBU had capital commitments in respect of acquisition, construction, and improvement of property and equipment and intangible assets totaling UAH 118 million (31 December 2013: UAH 575 million).

34 Off-balance sheet commitments and derivative financial instruments (continued)**Derivatives**

The NBU carried out transactions with futures for the purposes of regulating the interest rate risk since October 2013 under Investment Management and Consulting Services Agreement between the NBU and the International Bank for Reconstruction and Development.

As at 31 December 2014, the NBU had 138 long stock-exchange interest futures contracts maturing from March 2015 to March 2016, the notional value of which equaled to UAH 526 million or USD 33 million, and 1,096 short stock-exchange interest futures contracts maturing from March 2015 to June 2019, the notional value of which equaled to UAH 4,258 million or USD 270 million (31 December 2013: 572 long stock-exchange interest futures contracts maturing from March 2014 to March 2016, the notional value of which equaled to UAH 1,057 million or USD 132 million, and 1,288 short stock-exchange interest futures contracts maturing from March 2014 to September 2018, the notional value of which equaled to UAH 2,541 million or USD 318 million). Funds for settlements under futures transactions in the amount of UAH 7 million (2013: UAH 5 million) were measured at fair value and included in foreign currency funds and deposits as at 31 December 2014 (Note 5).

Legal proceedings

From time to time and in the normal course of business, claims against the NBU occur. On the basis of own estimates and internal professional advice, management is of the opinion that no material losses will be incurred by the NBU. Accordingly, no provision has been created in these consolidated financial statements.

35 Fair value of financial assets and liabilities

The estimated fair values of financial assets and liabilities have been determined by the NBU using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret the market data to determine the estimated fair value. As disclosed in Note 4, the economy of Ukraine displays characteristics of an emerging market, and the level of activity in financial markets of Ukraine at the moment is low. As such, the estimates may not be fully reflective of the value that could be realized by the NBU in the current circumstances.

Financial assets and liabilities carried at fair value

Foreign debt securities are recorded in the consolidated statement of financial position at their fair values. Fair value of these securities is based on quoted prices in an active market. The fair value of major part of the internal state debt securities measured at fair value was based on quoted prices in the market that was not active (31 December 2013: the fair value of majority of the internal state debt securities measured at fair value was based on quoted prices in the market that was not active).

35 Fair value of financial assets and liabilities (continued)

The NBU has estimated that the fair value of certain financial assets and liabilities is not significantly different from their carrying values

These financial instruments include funds and deposits in foreign currencies, SDR holdings, banknotes and coins in circulation, due to banks, due to government and other institutions, certificates of deposit issued by the NBU and liabilities to the IMF, other financial liabilities.

Fair value of debt securities denominated in foreign currencies at amortized cost (foreign government loan bonds (“FGLB”) denominated in USD and EUR) is based on quoted prices in the active market.

Fair values of those financial instruments for which no active market exists have been estimated by the NBU using discounted cash flow techniques. These models takes into account future interest payments and principal repayments, the repayment period and the discount factor. As the determination of the discount factor is subjective, the NBU has used two discount factors which resulted in a range of fair values calculated for the same category of assets. The discounted cash flows method was used by the NBU to estimate fair values of domestic securities denominated in the national currency, internal state debt, and loans to banks and other borrowers.

For the purposes of estimating fair values of domestic securities denominated in the national currency, the NBU used a discount rate determined based on the yield curve.

For the purposes of estimating fair values of internal state debt, weighted average NBU’s rate for all instruments of refinancing was used.

For the purposes of estimating fair values of loans to banks and other borrowers, the NBU used an interest rate for banks’ refinancing used in December 2014 which is equal to the NBU’s discount rate and a half, namely overnight, for deals from 32 to 92 days and over 92 days (2013: market rate which is equal to the NBU’s discount rate plus 1.5%, but not less than weighted average rate of interbank lending (KIACR rate) in the national currency, namely overnight, for deals from 32 to 92 days and over 92 days).

The discount rates used were as follows:

	2014	2013
	Discount rate, in % per annum	Discount rate, in % per annum
Debt securities in the national currency:		
Domestic government loan bonds	13.89 – 27.04	10.04 – 20.57
Bonds of other government institutions	14.05 – 29.49	8.63 – 19.60
Internal state debt in the national currency (1994–1996)	15.57	7.15
Loans to banks and other borrowers	14.00 – 21.00	9.092 – 10.622

35 Fair value of financial assets and liabilities (continued)

The following table summarizes the carrying amounts and estimated fair values of those financial assets not presented in the NBU's consolidated statement of financial position at their fair values:

	2014		2013	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<i>(in UAH millions)</i>				
Domestic debt securities in the national currency:				
Domestic government loan bonds	311,565	304,121	136,987	138,001
Bonds of other government institutions	5,052	4,809	7,273	7,417
in foreign currencies:				
FGLBs denominated in USD	1,932	1,330	954	975
FGLBs denominated in EUR	1,544	1,053	840	878
Total domestic securities not carried at fair value	320,093	311,313	146,054	147,271
Internal state debt	2,180	1,431	2,268	2,466
Loans to banks and other borrowers	81,573	78,673	66,998	67,180

Taking into account that calculations of the estimated fair value are based on certain assumptions, it should be noted that the information provided above may not be fully reflective of the value that could be realized.

For financial instruments, the levels in the fair value hierarchy into which the fair values are categorized were as follows:

	2014			2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<i>(in UAH millions)</i>						
Assets measured at fair value:						
Funds and deposits in foreign currencies (futures)	7	–	–	5	–	–
Foreign securities at fair value	87,997	–	121	100,459	–	121
Domestic debt securities at fair value:						
in the national currency						
Domestic government loan bonds	–	9,254	–	–	8,080	–
in foreign currencies						
Domestic government loan bonds denominated in USD	–	1,427	–	–	–	–
Assets for which fair value is disclosed:						
Domestic debt securities in the national currency:						
Domestic government loan bonds	–	32,802	271,319	–	138,001	–
Bonds of other government institutions	–	2,763	2,046	–	7,417	–
in foreign currencies:						
FGLBs denominated in USD	1,330	–	–	975	–	–
FGLBs denominated in EUR	1,053	–	–	878	–	–
Internal state debt	–	–	1,431	–	–	2,466
Loans to banks and other borrowers	–	–	78,673	–	–	67,180

35 Fair value of financial assets and liabilities (continued)

In 2014, there were no significant transfers of financial instruments between Level 1 and Level 2 of fair value hierarchy (2013: there was a transfer of domestic debt securities at fair value in the national currency, with the carrying amount of UAH 7,929 million, between Level 1 and Level 2 of fair value hierarchy due to the disappearance of active market for those financial instruments). The NBU considers the transfers between the levels of the fair value hierarchy to have occurred at the end of the reporting period.

No changes in the structure or the carrying value of financial instruments that were included in Level 3 of the fair value hierarchy occurred during 2014 and 2013, neither any gains or losses were recognized. Change of inputs to valuation models according to reasonably possible alternative assumptions would not have had a significant impact on the fair value of those instruments as at 31 December 2014 and 2013.

36 Presentation of financial instruments by measurement categories

In accordance with IFRS 9 “Financial Instruments”, the NBU classifies its financial assets into the following categories: financial assets at fair value and financial assets measured at amortized cost.

All financial liabilities of the NBU are carried at amortized cost.

The following table analyzes financial assets by these measurement categories as at 31 December 2014:

	Assets measured at fair value	Assets measured at amortized cost	Total
			<i>(in UAH millions)</i>
Financial assets			
Funds and deposits in foreign currencies	7	17,331	17,338
Foreign securities	88,118	–	88,118
SDR holdings	–	59	59
Domestic securities	10,681	320,093	330,774
Loans to banks and other borrowers	–	81,573	81,573
Internal state debt	–	2,180	2,180
IMF quota contributions	–	31,344	31,344
Other financial assets	–	963	963
Total financial assets	98,806	453,543	552,349

The following table analyzes financial assets by these measurement categories as at 31 December 2013:

	Assets measured at fair value	Assets measured at amortized cost	Total
			<i>(in UAH millions)</i>
Financial assets			
Funds and deposits in foreign currencies	5	52,903	52,908
Foreign securities	100,580	–	100,580
SDR holdings	–	128	128
Domestic securities	8,080	146,054	154,134
Loans to banks and other borrowers	–	66,998	66,998
Internal state debt	–	2,268	2,268
IMF quota contributions	–	16,945	16,945
Other financial assets	–	411	411
Total financial assets	108,665	285,707	394,372

37 Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form. Related parties of the NBU include government, state-controlled entities, key management personnel, and other related parties.

In the normal course of business, the NBU enters into transactions with the related parties. Only material transactions with related parties are provided in this Note.

The outstanding balances at the year end are as follows:

	Notes	Government and state-controlled entities	2014 Associates	Other related parties	Government and state-controlled entities	2013 Associates	Other related parties
<i>(in UAH millions)</i>							
Domestic securities	8	330,774	–	–	154,134	–	–
Loans to banks and other borrowers		34,889	–	–	41,710	–	–
Provision for loans to banks and other borrowers	9	10,200	–	–	–	–	–
Internal state debt		(4,843)	–	–	(4,263)	–	–
Other assets	10	2,180	–	–	2,268	–	–
Accounts of banks		72	95	–	75	99	–
Accounts of government and other institutions		5,164	–	–	5,828	–	–
Accounts of the Deposit Guarantee Fund		13,572	180	5	3,773	131	20
Liability on profit distribution to the State Budget	15	819	–	–	80	–	–
Other liabilities	19	61,803	–	–	11,886	–	–
Domestic securities		5	–	–	9	–	–

Other related parties include Corporate Non-government Pension Fund of the NBU.

The terms of balances presented in the table above are as follows:

Short-term loans to state-owned banks (included in the loans to banks and other borrowers in the table above, specifically, under direct “repo” transactions with the government bonds of Ukraine) as at 31 December 2014 bear contractual interest rates from 18.40% to 19.50% (31 December 2013: 6.50%);

Refinancing loans granted through tender procedure as at 31 December 2014 bear interest rates from 10.00% to 19.50% (31 December 2013: from 7.00% to 6.50%), and the loans are repayable within one year;

37 Related party transactions (continued)

Long-term loans to state-owned banks (included in the loans to banks and other borrowers in the table above) bear contractual interest rates from 7.00% to 16.00% as at 31 December 2014 (31 December 2013: from 7.00% to 8.50%) and mature from 1 to 2 years (31 December 2013: from 1 to 3 years);

Loans to the Deposit Guarantee Fund as at 31 December 2014 bear interest rates at 12.5%;

Accounts of government and other institutions are non-interest bearing;

Demand accounts of the Deposit Guarantee Fund bear contractual interest rates of 5.04% as at 31 December 2014 (31 December 2013: 9.11%);

Reserve requirement deposit balances transferred by state-owned banks to separate accounts with the NBU (included in accounts of banks in the above table) bear interest rates of 4.20% as at 31 December 2014 (31 December 2013: 1.95%).

Terms of operations with internal state debt and domestic securities are disclosed in the respective notes.

Income and expense items from operations with related parties were as follows:

	2014				2013	
	Government and state-controlled entities	Associates	Other related parties	Government and state-controlled entities	Associates	Other related parties
						<i>(in UAH millions)</i>
Interest income	30,576	–	–	18,321	–	–
Interest expense	(95)	–	–	(31)	–	–
Fee and commission income	201	–	–	175	–	–
Other income	90	3	–	31	9	–
Staff costs	–	–	157	–	–	214
Other expense	(40)	(3)	–	(17)	–	–
Net increase/(decrease) in provisions	580	–	–	(563)	–	–

In accordance with the Law of Ukraine “On the National Bank of Ukraine”, services to the State Treasury of Ukraine are provided by the NBU free of charge.

In 2014, short-term benefits (salary) of key management personnel amounted to UAH 12.9 million (2013: UAH 12 million). As at 31 December 2014, outstanding balance of loans to key management personnel amounted to UAH 1 million (31 December 2013: UAH 6 million). Those loans are neither past due nor impaired.

38 Disclosure of significant amounts by items of assets and liabilities

As at 31 December 2014, 61% (31 December 2013: 38%) of total consolidated assets of the NBU (other than IMF quota) were represented by arrears of the Ukrainian government under the loans granted and domestic securities, 7% (31 December 2013: 7%) – by the US government coupon bonds, 3% (31 December 2013: 4%) – by the coupon bonds of the UK government and other EU countries, and 15% (31 December 2013: 16%) – by the loans to Ukrainian banks and other borrowers.

38 Disclosure of significant amounts by items of assets and liabilities (continued)

As at 31 December 2014, 65% (31 December 2013: 76%) of total consolidated liabilities of the NBU (other than promissory notes to the IMF on quota contribution) were banknotes and coins in circulation, 6% (31 December 2013: 14%) – accounts of banks, and 7% (31 December 2013: 4%) – liabilities to the IMF.

39 Subsequent events

Based on the results of the recent IMF mission which completed its work in mid-February 2015, there was an agreement reached with Ukraine regarding an economic reform program supported by the four-year Extended Fund Facility (the “EFF”) amounting to approximately USD 17.5 billion. In March 2015, Ukraine received the first tranche in the amount of SDR 3,546 million, of which SDR 1,631 million was accepted to the NBU’s account and SDR 1,915 million – to the account of the State Treasury. The agreements reached with the IMF stipulate that the government of Ukraine and the NBU comply with certain terms and conditions that are to be fulfilled within a specified period of time, which relate, but are not limited to, structural changes and other aspects of the NBU’s activities.

To ensure predictable and controlled developments in the market situation, the National Bank of Ukraine applied tighter monetary policies. In particular, starting from the beginning of 2015, the NBU increased its discount rate twice – from 14.0% to 19.5% per annum on 6 February 2015 and to 30% per annum on 4 March.

In February 2015, in accordance with the Law of Ukraine “On the State Budget of Ukraine for 2015”, the NBU made an advance transfer of the profit distributable for the year 2014 to the State Budget of Ukraine in the amount of UAH 5,450 million.

In March 2015, pursuant to the Resolution of the Cabinet of Ministers of Ukraine and the Decision of the NBU’s Board, control over corporate rights of the state regarding Limited Liability Company “Banking Television” was transferred to the Ministry of Information Policies.

Subsequent to 31 December 2014, the official exchange rate of UAH against USD decreased by 49%. At the date of signing these consolidated financial statements, USD 1 was equal to UAH 23,510335.

9 April 2015
Kyiv, Ukraine