

TRANSPARENCY. OPENNESS. ACCOUNTABILITY

ANNUAL REPORT 2015



GOVERNOR'S ADDRESS

KEY POINTS: THE YEAR AT A GLANCE

MISSION, VISION AND VALUES

MANDATE OF THE NATIONAL BANK OF UKRAINE

PART I. GOVERNANCE

Governing Bodies

NBU Board

Council of the National Bank of Ukraine

Organizational chart

Comprehensive Program for the Development of Ukraine's Financial Sector until 2020

PART II. FULFILLING THE NBU MANDATE

Monetary Policy: Objectives and Implementation

Promoting Financial Stability

Payment Systems and Settlements

PART III. CHANGE IS UNDER WAY

Transformation of the National Bank of Ukraine

New Communication Policy

A New Level of Cooperation with Parliament

HR Policy

International Cooperation

Internal Control System

PART IV. CONSOLIDATED FINANCIAL STATEMENTS OF THE NATIONAL BANK OF UKRAINE FOR 2015

Key Financial Reporting Indicators of the National Bank of Ukraine



CONTENT

GOVERNOR'S ADDRESS	4
KEY POINTS: THE YEAR AT A GLANCE	5
MISSION, VISION AND VALUES	7
MANDATE OF THE NATIONAL BANK OF UKRAINE	8
<hr/>	
PART I. GOVERNANCE	9
GOVERNING BODIES	11
NBU BOARD	12
COUNCIL OF THE NATIONAL BANK OF UKRAINE	17
ORGANIZATIONAL CHART	27
COMPREHENSIVE PROGRAM FOR THE DEVELOPMENT OF UKRAINE'S FINANCIAL SECTOR UNTIL 2020	30
<hr/>	
PART II. FULFILLING THE NBU MANDATE	40
MONETARY POLICY: OBJECTIVES AND IMPLEMENTATION	42
Monetary policy objectives	42
Strategic initiatives in monetary policy	43
Implementation of monetary policy and macroeconomic environment	44
International reserves	46
Monetary development	51
Changes in monetary instruments	52
Crisis response measures in the foreign exchange market	54
PROMOTING FINANCIAL STABILITY	56
Situation in the banking system	57
Implementing macroprudential regulation	64
Regulation and supervision over banks	68

PAYMENT SYSTEMS AND SETTLEMENTS	83
Cash circulation	84
Payment systems regulation and development of cashless payments	90
<hr/>	
PART III. CHANGE IS UNDER WAY	97
TRANSFORMATION OF THE NATIONAL BANK OF UKRAINE	99
NEW COMMUNICATION POLICY	106
A NEW LEVEL OF COOPERATION WITH PARLIAMENT	112
HR POLICY	117
INTERNATIONAL COOPERATION	125
INTERNAL CONTROL SYSTEM	127
Financial controlling	127
Risk management	129
Internal audit	133
<hr/>	
PART IV. CONSOLIDATED FINANCIAL STATEMENTS OF THE NATIONAL BANK OF UKRAINE FOR 2015	134
KEY FINANCIAL REPORTING INDICATORS OF THE NATIONAL BANK OF UKRAINE	137
<hr/>	

GOVERNOR'S ADDRESS



We have come through an extremely difficult year in Ukraine. Many people thought that Ukraine's economic situation was beyond hope. The hryvnia exchange rate fell sharply in early 2015 due to the escalation of the military conflict and the destruction of the economy. We were struck by a devastating storm that required a quick and drastic response in order to stabilize both the economy and the financial system.

In spite of these obstacles, we stabilized the macroeconomic situation and laid solid foundations for curbing inflation and reviving economic growth.

This became possible by signing an Extended Fund Facility Agreement with the IMF, and, most importantly, the administrative measures that the NBU continued to take in 2015.

The administrative measures stabilized demand for foreign currency, ensured regular foreign currency supplies to the interbank FX market, and limited undue foreign currency outflow from Ukraine.

The flexible exchange rate regime and the gradual stabilization of the FX market paved the way for inflation targeting. Inflation targeting, where the NBU will aim monetary policy towards ensuring price stability rather than pegging the exchange rate, was the only possible choice.

We also made excellent progress in reforming the banking sector. We can confidently say that the picture in the banking system has completely changed – the banking sector has become healthier and more transparent.

Last year was also a year of positive changes at the NBU. The central bank's institutional and financial independence was statutorily enhanced. Now, the NBU is indeed able to conduct an independent monetary policy and increase the effectiveness of its performance as an institution. Last year's results have proved that we are able to execute our primary mandate of delivering price stability.

To wrap up, I'd like to say that a strong and patriotic team of professionals striving together for price and financial stability will always win.

A handwritten signature in black ink, appearing to read 'Valeria Gontareva', with a long horizontal line extending to the right.

Valeria Gontareva

KEY POINTS: THE YEAR AT A GLANCE

»» *In 2015, the NBU worked under extreme external and internal challenges and risks. Reforms in the monetary policy and banking system cleanup had to be carried out in the tough conditions of an escalating military conflict in the east of the country and adverse external conditions for our economy. We could achieve the goals set for the financial year and attain macroeconomic stability in the country as a result of the resumption of productive collaboration with the International Monetary Fund (IMF) and international creditors, and meaningful cooperation with the Ukrainian parliament. Moreover, the NBU itself underwent quality changes.*

- Aggravation of the military conflict in Donbas at the beginning of the year led to a sharp decline in industrial production and export earnings. This in turn resulted in a rapid domestic currency depreciation, which together with increased utility rates gave rise to a surge in headline inflation.
- In order to stabilize the FX market and curb inflation, the NBU followed strict monetary policy and extended certain administrative restrictions on the FX market. It allowed stabilization of the FX market and development of a disinflationary trend.
- Productive cooperation with the IMF resumed – the support within the EFF provided means for building up international reserves and paved the way for financial assistance from other creditors and partner countries.
- Hryvnia depreciation caused the trade gap to reduce almost to zero, i.e. to the lowest level since 2015. Also, the IMF assistance ensured revenues in the financial account. As a result, 2015 ended with a surplus in the balance of payments.
- Amended legislation of Ukraine enhanced independence of the NBU as an institution. From now on, Ukraine has a central bank that is able to conduct an independent and effective monetary policy aimed at price and financial stability as a basis for economic development.
- Conditions were laid down necessary to change the monetary policy due to fixing the terms for a flexible exchange rate regime, strengthening the NBU's independence, and reforming the mechanism for development of and making decisions on monetary policy. The NBU approved the Monetary Policy Strategy for 2016-2020, which is based on implementation of an inflation targeting regime.
- The main stage of the banking system cleanup was completed - the segment of large banks (covering almost 90% of banking sector assets) was cleaned up. Owing to new legislation introduced, significantly strengthening the responsibility of banks' owners and management for bringing banks to bankruptcy. A lot of work was done on the disclosure of banks' beneficial owners and on the increase of control over banks' operations with related parties. New legislative provisions were introduced in the banks' business practices; the diagnostics of operations with related parties was started in the largest banks.
- Efficient dialog with the Verkhovna Rada of Ukraine was established - during the year, a number of laws, necessary for reforming the banking system, were approved. In February 2015, parliamentary hearings were held on determining ways to stabilize the banking system.
- Financial market regulators developed a consolidated plan for financial sector reform – the Comprehensive Program of Ukraine's Financial Sector Development Until 2020. The President of Ukraine assigned responsibility for financial sector reform to the NBU and personally to the NBU Governor, Valeria Gontareva.
- The NBU itself was radically reformed, in particular in respect to its organizational, operational, and

management structures. As a result, the NBU got rid of bureaucratic burdens, the non-key functions for a central bank and assets, the maintenance of which was unreasonable and uneconomical.

- According to leading countries' practice, the NBU introduced a new mechanism for developing and making decisions; the mechanism is based

on the participation of relevant committees and collective responsibility of every Board member. A new system of internal controls was launched, which will help minimize risks to the NBU. Strengthening the role of and broadening the NBU Council's powers will reinforce the NBU's accountability before the public.

10 MAJOR ACHIEVEMENTS of the NBU in 2015



01. Strengthening institutional and financial independence of the NBU – a number of laws have been passed to strengthen the NBU's independence and modify the rules for profit distribution



06. Ensuring transparent ownership structure – the requirements for disclosure of beneficial owners of Ukrainian banks have been tightened



02. Macroeconomic stabilization – a set of measures has been applied in the monetary and FX markets



07. Higher responsibility of bank owners and management – a law has been passed imposing higher responsibility on bank owners and managers for bankrupting a bank



03. New monetary policy – migration to inflation targeting has been triggered, the most appropriate regime for Ukraine



08. Recapitalization of the largest banks – additional capitalization agreed to with shareholders of the largest banks based on the findings of 2014 stress-tests



04. Cooperation with the IMF – a four-year EFF program has been launched, for a total amount of USD 17.5 billion



09. Enhancing cashless payments – the amount of cash in circulation decreased, while amount and volumes of cashless transactions increased



05. Banking system cleanup – launched in 2014, the banking sector cleanup of insolvent and scheme banks continued.



10. NBU transformation – the NBU organizational chart has been transformed, core functions defined, and the process of removing non-core functions and assets started.

MISSION, VISION AND VALUES



OUR MISSION ◀

To ensure price and financial stability contributing to the sustainable economic development of Ukraine.

▶ OUR VISION

A modern, open, and independent central bank enjoying public trust and integrated into the European community of national central banks.



OUR VALUES



Patriotism



Professionalism



Transparency



Integrity



Partnership

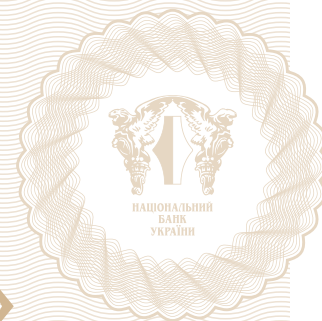
MANDATE OF THE NATIONAL BANK OF UKRAINE

According to the Constitution of Ukraine, the main function of the National Bank of Ukraine (hereinafter – the NBU) is to ensure stability of the monetary unit of Ukraine.

When exercising its function, the NBU shall proceed from the priority of achievement and retention of price stability in the country.

The NBU shall promote, within the limits of its authority, financial stability, including stability of the banking system, without prejudice of the objective set forth in the second part of this article.

The NBU shall also promote the sustainability of economic growth and the economic policy of the Cabinet of Ministers of Ukraine provided that it does not prevent the NBU from attainment of the objectives determined in the second and third parts of this article.



Article 6 of the Law of Ukraine *On the National Bank of Ukraine* No. 541-VIII of 18 June 2015.

The NBU strives to maintain price stability, i.e. to achieve low and stable inflation, via implementation of the monetary policy.

The NBU exercises banking regulation and supervision on an individual and consolidated basis, exercises the regulation of foreign exchange within the competence specified by a special law, establishes the procedure of effecting transactions in foreign currency, and organizes and exercises foreign exchange control over banks and other financial institutions possessing an NBU license to conduct foreign currency transactions.

The NBU is responsible for the monetary policy and, via its implementation, it shall promote the sustainability of economic growth and the

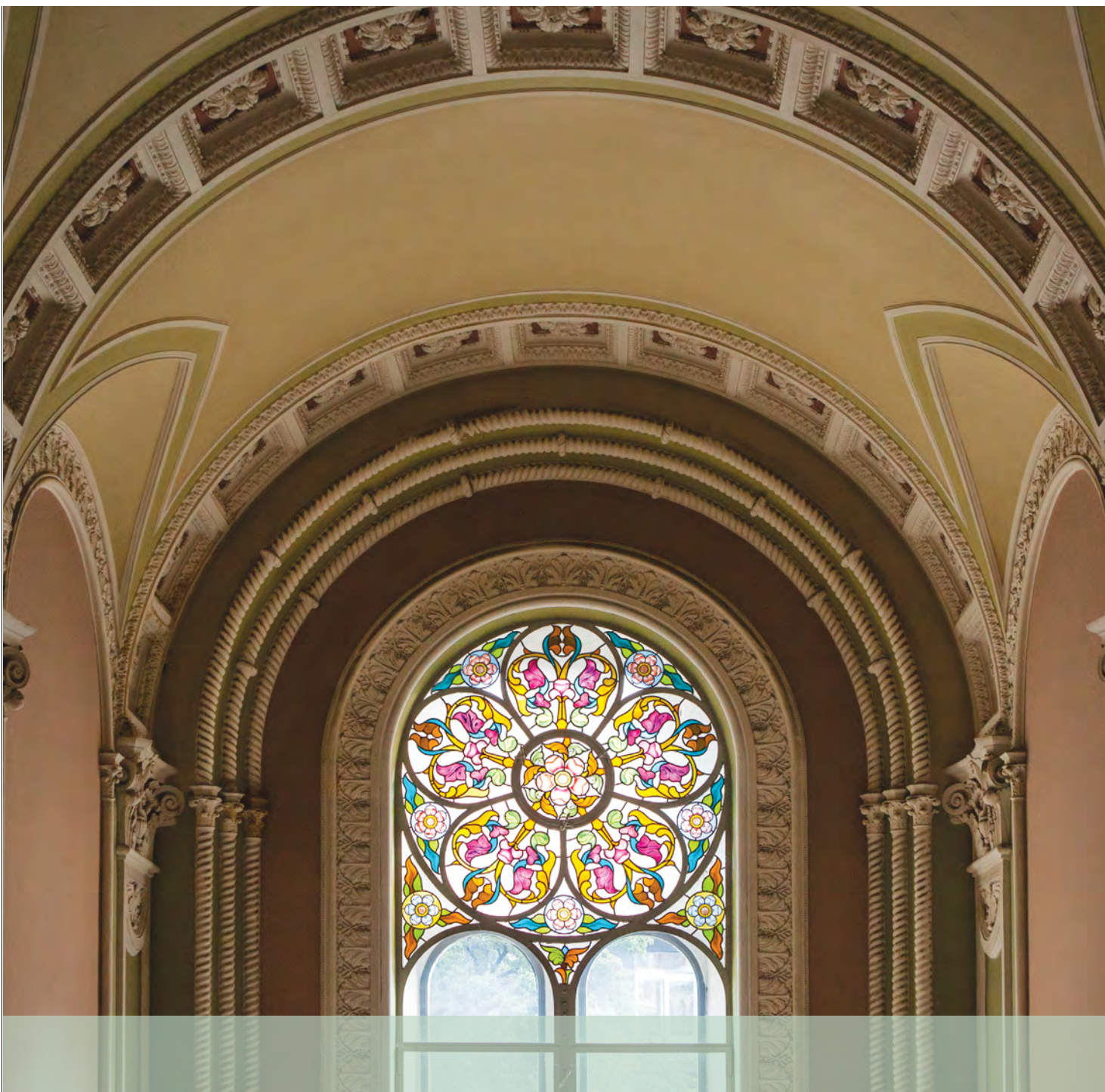
economic policy of the Cabinet of Ministers of Ukraine provided that it does not prevent the NBU from attainment of price and financial stability in the country.

The NBU issues the national currency of Ukraine on a monopoly basis and organizes its circulation in cash; regulates activities of payment and settlement systems in Ukraine; determines the areas for development of modern electronic banking technologies; establishes payment and accounting systems, seeks their continuous, smooth and efficient operation, and ensures their development; and controls the creation of payment instruments, banking automation systems, and banking information protection systems.



PART I

GOVERNANCE



The interior of the National Bank of Ukraine

GOVERNOR'S ADDRESS

KEY POINTS: THE YEAR AT A GLANCE

MISSION, VISION AND VALUES

MANDATE OF THE NATIONAL BANK OF UKRAINE

PART I. GOVERNANCE

GOVERNING BODIES

NBU BOARD

Changes in the NBU Board composition in 2015

COUNCIL OF THE NATIONAL BANK OF UKRAINE

Council of the National Bank of Ukraine

COMMITTEES OF THE NATIONAL BANK OF UKRAINE

NBU Committees: Composition

Mandate of the NBU Committees

ORGANIZATIONAL CHART

Organizational Chart of the National Bank of Ukraine as of 1 January 2016

Major Changes in the NBU structure in 2015

COMPREHENSIVE PROGRAM FOR THE DEVELOPMENT OF UKRAINE'S FINANCIAL SECTOR UNTIL 2020

Major areas of implementing the Comprehensive Program

Objectives and areas of the Comprehensive Program for Development of Ukraine's Financial Sector Until 2020

Reforming the Financial Sector of Ukraine

»» *The Parliament of Ukraine adopted the Law of Ukraine On Amendments to Certain Legislative Acts of Ukraine Regarding the Institutional Capacity Building of the National Bank of Ukraine in June 2015. This is a triumphant result of fruitful cooperation with the Verkhovna Rada of Ukraine and the International Monetary Fund, and the next decisive step by the NBU towards the European Union. It means that the National Bank of Ukraine has successfully implemented an independent monetary policy and improved its efficiency as an institution.*

The main components of the independence of the NBU are:

- 1) Institutional, which consists of consolidating the legislative provisions under which the central bank is an independent state body, independent of the influence of other public institutions;
- 2) Functional, which provides clear definitions of powers and authorities and stipulates the support of the government policy insofar as it does not threaten the implementation of the main goals of the NBU.
- 3) Financial, the strengthening of which required a change in the approach to the financial support of activities of the NBU.

Thus, if there was a legal requirement for the NBU to transfer half of its retained earnings to the State Budget of Ukraine, first the retained earnings are primarily allocated for the formation of the general and other reserves of the NBU, which are the source of investment financing and for increases

in the authorized capital of the NBU. Only after these allocations are the retained earnings transferred to the State Budget of Ukraine in full, but no more than the amount set out in the annual financial statements verified by an external audit and approved by the Board of the NBU;

- 4) Personal, which eliminates the possibility of political leverage on the governing bodies of the NBU.

A guaranteed term of office for deputies of the Governor of the NBU and grounds for their dismissal have been clearly defined. At the same time, the procedure for appointment and dismissal of deputies of the Governor of the NBU (appointed and dismissed by the NBU Council as advised by the Governor of the NBU) has been changed, and the principle of collective work of the Board of the NBU, with equal rights for all its members, including the Governor of the NBU, has been enshrined, which also provides for the collective responsibility of the decisions made.

Moreover, rules to prevent conflicts of interest by members of the Council/Board of the NBU and other officials, as well as compliance with the Code of Ethics of employees of the NBU, have been introduced.

As such, there are conditions for the proper exercise of legally defined powers and authorities by the NBU, and for the formation of a positive image of the central bank of Ukraine in the world.

GOVERNING BODIES

»» *In 2015, the NBU governance system changed fundamentally, getting much closer to the best practices of central banks in the world. The Board of the NBU received the right to delegate some of their powers and authorities to certain committees.*

The main changes:

- The number of members of the NBU Board was reduced from 11 to 6 persons. Now, it includes the Governor of the NBU, the First Deputy, and four Deputies of the Governor of the NBU;
- A governance system based on committees was implemented. Thus, the transition from an individual decision-making practice to a committee decision-making practice occurred. This ensures the creation of conditions for the exchange of information, analysis of results, and distribution of the workload between the Board members and improvement of the efficiency of performance;
- The mandate and terms of the NBU Council operation were radically changed, the number of Council meetings was increased from 4 to 10 per year. The number of members of the NBU Council was reduced from 15 to 9 persons, a shift from pro bono to a professional arrangement took place, meaning that they have a right to receive remuneration for their work;
- The procedure for appointment and dismissal of Deputies of the Governor of the NBU (appointed and dismissed by the Council of the NBU as advised by the Governor of the NBU was changed);
- The number of the governing bodies of the NBU was reduced;
- The “variable” principle of appointment of members of the Council and the Board of the NBU, which guarantees the continuity of operation of governing bodies, was introduced;
- Leverage on members of the governing bodies of the NBU became impossible with the introduction of a legislative provision that requires providing reasons for the voluntary resignation of a member of the Council of the NBU, the Governor and the Deputy Governor of the NBU.



NBU BOARD

»» Members of the NBU Board as of 1 April 2016:



VALERIA GONTAREVA

Governor of the National Bank of Ukraine

NBU official since June 2014.

NBU Board Member since June 2014.

Other powers:

Governor for Ukraine of the International Monetary Fund;

Co-Chair of the Financial Stability Board;

Chairperson of Supervisory Board of the German-Ukrainian Fund;

Head of the NBU Monetary Policy Committee;

Head of the NBU Financial Stability Committee;

Head of the Assets and Liabilities Management Committee;

Head of the Board of the Corporate Non-State Pension Fund of the National Bank of Ukraine.

Education:

Kyiv National Economic University, major in International Economics;

Kyiv Polytechnic Institute, major in Optical and Electro-optical Instrument Engineering

Work Experience:

Head of the Investment Board and later Managing Director of Investment Capital Ukraine Asset Management Company LLC;

Chief of Resource Management, Deputy Chairman of the Board,

Deputy Chairman of the Board - Head of Financial Markets Office,

and later the First Deputy Chairman of the Board, ING Bank Ukraine PJSC;

Head of Resource Management Division and later Head of Resource

Management Department in Société Générale Ukraine JSC;

held different positions, from 2nd category economist to chief

economist, at the Ukrainian Interbank Currency Exchange.

Experience in managerial positions – about 20 years.



VLADYSLAV RASHKOVAN

Deputy Governor of the National Bank of Ukraine

NBU official since April 2014.

NBU Board Member since April 2014.

Scope: finances, strategy for reforming the banking system, and transformation of the regulator.

Other powers:

Head of the NBU Credit Committee;

Head of the NBU Budget Committee;

Head of the NBU Competitive Bidding Committee;

Deputy Head of the NBU Change Management Committee.

Education:

Odesa National Economic University, major in Finance and Credit

Work Experience:

Director, Department of Banking System Strategy and Reforming of the National Bank of Ukraine;

Director, Administrative Support Centre, Ukrasotsbank PJSC;

Head of Macroeconomic Research Bureau, the Project Management and Business Development Director, later a Member of the Board of UniCredit Bank PJSC, managed the process of merging UniCredit Bank PJSC with Ukrasotsbank PJSC;

Lecturer and Researcher, Banking Department, Odesa National Economic University.

Experience in managerial positions and academic work – over 10 years.



KATERYNA ROZHKOVA

Acting Deputy Governor of the National Bank of Ukraine

NBU official since June 2015.

NBU Board Member since January 2016.

Scope: prudential supervision.

Other powers:

Deputy Head of the NBU Committee on Banking Supervision and Regulation, Payment System Oversight;

Head of the Bank Audit Committee.

Education:

Kyiv National Economic University, major in Finance and Credit – Bank Management;

International Institute of Management (MIM-Kyiv), major in International Business Activity (MBA).

Work Experience:

Deputy Head of the Board, Acting Head of the Board of Platinum Bank PJSC; Deputy Head of the Board of Finbank PJSC;

Director, Offsite Supervision Department, National Bank of Ukraine;

Deputy Head of the Board, Member of the Board, authorized compliance officer, and advisor to the Head of the Board of ErsteBank;

held different positions, from economist to Director of Financial Department, at Aval JSB.

Experience in managerial positions – over 10 years.



YAKIV SMOLII

Deputy Governor of the National Bank of Ukraine

NBU official since April 2014.

NBU Board Member since April 2014.

Scope: operational activity, payments, and cash circulation control.

Other powers: Head of the Administrative Board of the DGF;

Head of the NBU Committee on Banking Supervision and Regulation,

Payment System Oversight;

Head of the NBU Committee on Operational Risk Management and Business Continuity of the National Bank of Ukraine;

Head of the NBU Change Management Committee.

Education:

Ivan Franko National University of Lviv, major in Applied Mathematics;

PhD in Economics.

Work Experience:

Director on Banking Business at Prestige-Group;

Head of Automation Office, Deputy Head of the Board of Aval JSB;

Lead Engineer, Head of IT Division, Deputy Head of Ternopil Regional Office of the National Bank of Ukraine;

Engineer/Programmer, Senior Engineer/ Programmer, Head of Office at Orion plant;

Engineer/Programmer, Mathematician, Junior Researcher Associate at Ternopil Finance and Economics Institute.

Experience in managerial positions – over 15 years.



DMYTRO SOLOGUB

Deputy Governor of the National Bank of Ukraine

NBU official since March 2015.

NBU Board Member since March 2015.

Scope: monetary policy, financial stability, and banking system statistics.

Other powers:

Deputy Head of the NBU Monetary Policy Committee;

Deputy Head of the NBU Financial Stability Committee.

Education:

Belarusian State University, major in Theoretical Economics;

the National University of Kyiv-Mohyla Academy, Master's Degree in Economics (EERC);

Certified Financial Analyst (CFA).

Work Experience:

Economist Researcher at the International Monetary Fund Resident Representative Office in Ukraine; Head of Analysis and Research Division,

Raiffeisen Bank Aval PJSC;

Research Associate at the Institute for Economic Research and Policy Consulting (IER);

Research Assistant of the Master's Program in Economics (EERC) at the National University of Kyiv-Mohyla Academy.

Experience in managerial positions and academic work – more than 10 years.



OLEG CHURIY

Deputy Governor of the National Bank of Ukraine

NBU official since October 2014.

NBU Board Member since December 2014.

Scope: open market operations.

Other powers:

Deputy Head of the NBU Assets and Liabilities Management Committee;

Deputy Head of the NBU Credit Committee.

Education:

Kyiv Polytechnic Institute

International Institute of Market Relations and Entrepreneurship of the Market Centre, major in Finance and Credit;

Certified Financial Analyst (CFA).

Work Experience:

Head of the Office of Open Market Operations and Government Securities Placement; Director of the Open Markets Department of the National Bank of Ukraine;

Head of the Office of Fixed-Income Instruments Market Transactions, Investment Department, VTB Bank PJSC;

Acting Head of the Investment Department, Head of the Investment Business Office, UkrSibbank JSCIB;

Head of Treasury of Bank Austria Creditanstalt Ukraine JSCB and HVB Bank Ukraine.

Experience in managerial positions and academic work – more than 15 years.

Changes in the NBU Board composition in 2015

The legal requirement to reduce the number of members of the NBU Board caused changes in its composition. In particular, the following persons were removed from the NBU Board:

Viktor Novikov. Director of the Legal Department, NBU Board Member from 12 November 2009 through 9 July 2015.

Alla Shulha. Director of the General Department for Banking Supervision, NBU Board Member from 25 April 2014 through 14 April 2015.

Oleh Strynzha. Director of the Financial Controlling Department, NBU Board Member from 22 June 2015 through 9 July 2015.

Bohdan Lukasevych. Chief Accountant - Director of the Accounting Department, NBU Board Member from 21 March 2014 through 9 July 2015.

Roman Borysenko. Director of the Personnel Department, NBU Board member from 25 November 2014 through 9 July 2015.

On 31 December 2015, First Deputy Governor of the NBU Oleksandr Pysaruk left the position he held from 25 July 2014 to return to international activities.

Due to the work of Oleksandr Pysaruk as the First Deputy Governor of the NBU Given a significant progress was made in reforming the banking supervision system in record-breaking time, which established a firm basis for the banking system's development in the future. In particular, under his direction, on-site and off-site banking supervision was reformed through the introduction of methodological approaches based on the Basel principles of banking supervision; the efficiency of the prudential unit increased; a modern risk management function was developed in the NBU; and an updated legal framework in the area of granting non-bank financial institutions licenses to carry out foreign exchange activities was developed.

COUNCIL OF THE NATIONAL BANK OF UKRAINE



In 2015, the amendments to the Law of Ukraine On the National Bank of Ukraine changed the mandate of the NBU Council substantially, expanded its powers and authorities, and strengthened institutional framework for its operation.

Given the changes, the Law defines the following objectives of the NBU Council:

- Development of the Monetary Policy Fundamentals on the basis of proposals submitted by the NBU Board, publishing in official publications and submitting to the Verkhovna Rada of Ukraine each year by September 15, for information;
- Controlling implementation of the monetary policy;
- Analyzing the impact of the monetary policy of Ukraine on the state of socio-economic development of Ukraine and developing of proposals for making appropriate amendments thereto;
- Approval of the NBU expense budget for next year each year by September 15 of the current year;
- Submitting to the Verkhovna Rada of Ukraine and the Cabinet of Ministers of Ukraine information on part of the estimated retained earnings of the current year each year by April 14;
- Making a decision on allocation of retained earnings to increase the authorized capital of the NBU and to form reserves that are a source of investment financing allocated for the support of the NBU activities.

The amendments to the Law strengthened the role of the NBU Council in internal audit and risk control significantly. From now on, the powers and authorities of the Council include as follows:

- Establishment of the Audit Committee and other working bodies of the NBU, determination of their composition and managers;

- Appointment and dismissal of the Chair of the Internal Audit Unit;
- Supervision of Internal Audit Unit activities;
- Approval of a methodology for determining the remuneration of members of the NBU Board, except the NBU Governor, as advised by the NBU Board.

The following institutional changes in the organization of work of members of the NBU Council also occurred:

- All members of the Council will work for remuneration, not pro bono.
- The number of meetings of the NBU Council was significantly increased from 4 to 10 per year;
- The number of members of the NBU Council was reduced to 9 persons. The legislation defines a procedure for appointment as follows: 4 members of the Council as advised by the Verkhovna Rada of Ukraine, 4 members as advised by the President of Ukraine, the NBU Governor (ex officio).

Certainly, changes in the institutional framework of the NBU Council will increase the efficiency of its performance and thus contribute to the implementation of its main function by the NBU.

Members of the NBU Council resigned on 10 September 2015, according to the final and transitional provisions of the Law of Ukraine *On Amendments to Certain Legislative Acts of Ukraine on Developing Institutional Capacity of the National Bank of Ukraine*.

A new composition of the NBU Council was not formed as of the end of 2015.

» The NBU Council consisted of the following members as of 10 September 2015:

The Council of the National Bank of Ukraine

Stanislav Bukovynskyi

Chairman of the National Bank of Ukraine Council
Resolution of Verkhovna Rada of Ukraine
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 ex officio

Olha Kandybka

Resolution of Verkhovna Rada of Ukraine
No. 1181-VII of 1 April 2014

Trokhym Kovalchuk

Resolution of Verkhovna Rada of Ukraine
No. 1181-VII of 1 April 2014

Ihor Liutyi

Resolution of Verkhovna Rada of Ukraine
No. 1181-VII of 1 April 2014

Vitalii Lomakovych

Resolution of Verkhovna Rada of Ukraine
No. 1181-VII of 1 April 2014

Viktor Fedosov

Decree of the President of Ukraine
No. 545/2010 of 16 April 2010

Roman Shpek

Decree of the President of Ukraine
No. 545/2010 of 16 April 2010

COMMITTEES OF THE NATIONAL BANK OF UKRAINE

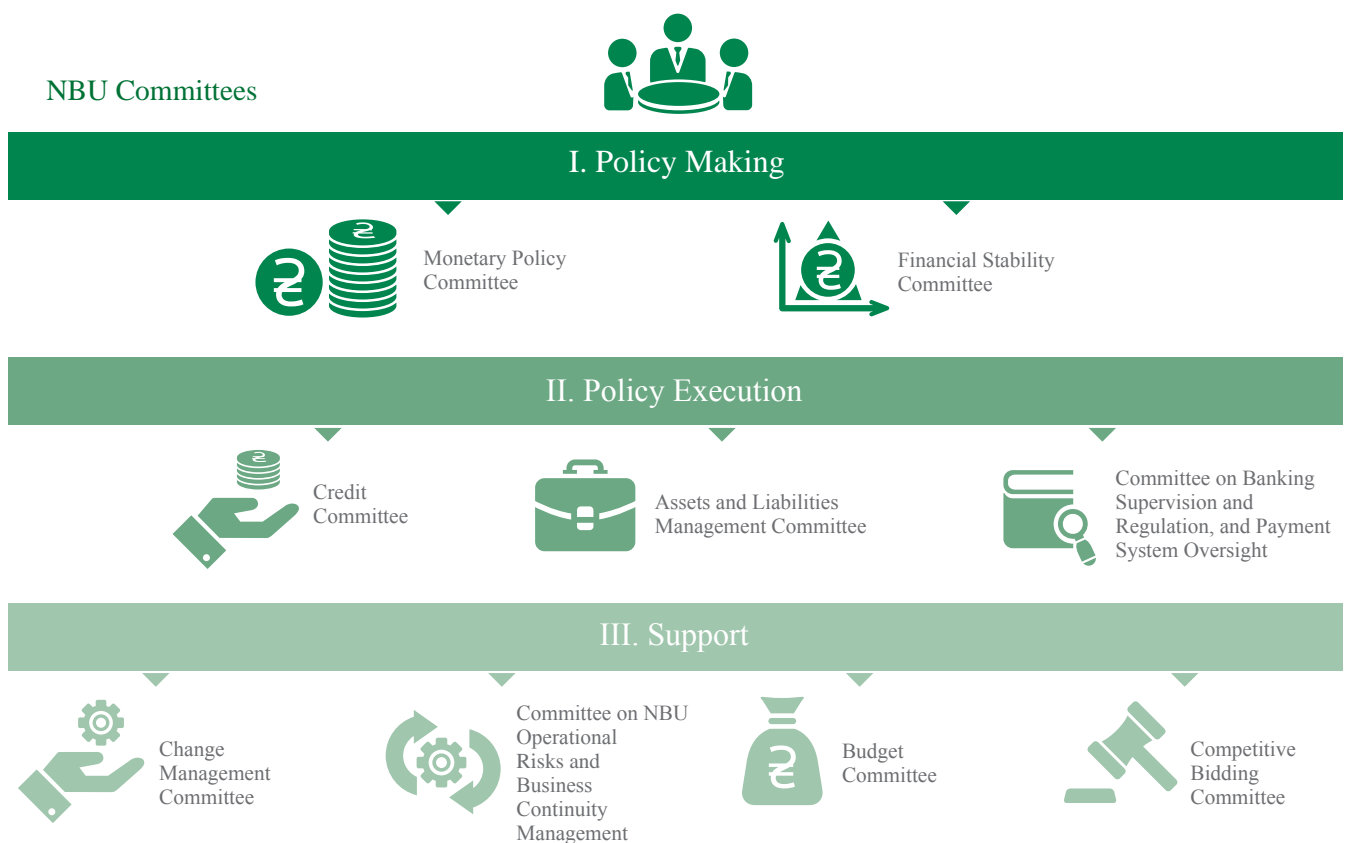
» In 2015, the NBU Board exercised its legal right to delegate some of its powers and authorities to special committees. Due to this fact, the NBU moved to a new decision-making system based on collegial decisions of committees. Nine special committees have already been established and are operational in all lines of activity. This practice is used by many central banks in the world, including the European Central Bank, the Bank of England and the Central Bank of Ireland.

Advantages of the new decision-making system of the NBU:

- Effective load distribution between the Board and committees of the NBU,
- Creation of conditions for cross-functional exchange of information, analysis results and experts' opinions,
- Engagement of mid-level managers in the discussion of issues prior to their submitting for consideration by the NBU Board;

- Significant boost to the capacity of the NBU in planning and improving its efficiency.

Currently, 9 special committees of the NBU Board operate in the NBU. The structure of committees covers all major lines of activity of the NBU that require collegial decisions and are divided into 3 main groups: policy making (strategic level), policy execution (tactical level) and support.



NBU Committees

Committees	Date of Establishment
I. Policy making (strategic level)	
Monetary Policy Committee	30 January 2015
Financial Stability Committee	28 May 2015
II. Policy execution (tactical level)	
Credit Committee	17 June 2015
Assets and Liabilities Management Committee	9 March 2004
Committee on Banking Supervision and Regulation, and Payment System Oversight	24 July 2015
III. Support	
Change Management Committee	8 September 2015
Competitive Bidding Committee	25 December 2015
Budget Committee	8 October 2015
Committee on NBU Operational Risks and Business Continuity Management	1 October 2015

The committees are established based on the clear principles governing the separation of areas of activities and the segregation of duties among the NBU Board members (NBU Committees: Composition Table). Each Board member has the right to attend meetings of all the committees

(optional committee member), but is entitled to be a member of only 2-5 committees. The composition of each committee (ex officio) and the mandate of committees are defined by the Regulations governing the activity of committees (Mandate of the NBU Committees Table).

NBU Committees: Composition

Members	Committees (by Functional Levels)								
	Policy Making		Policy Execution			Policy Support			
	MPC	FSC	CALM	SC	CC	COR&BCM	CMC	BC	CBC
1	2	3	4	5	6	7	8	9	10
Number of committee members	10	8	6	11	9	10	8	8	7
Participation of NBU Board members									
NBU Governor	H	H	H						
NBU Deputy Governor for Banking Regulation and Supervision	M	M	M	DH	M				
NBU Deputy Governor for Monetary Policy and Financial Stability	DH	DH							
NBU Deputy Governor for Open Market Operations	M		DH		DH				
NBU Deputy Governor for Operating Activities, Payments and Cash Circulation				H		H	H		
The NBU Deputy Governor for Strategy, Finance and General Support	M		O		H		DH	H	H
Participation of Directors/representatives of NBU departments									
Legal Department				M	M	M			M
Internal Audit Department	Nonvoting participation by invitation					O	O	O	O
Personnel Department						M	M	M	
Risk Management Department			M		M	DH	M		
Banking Supervision Department		M		M	M				
Registration and Licensing Department				M					
Financial Monitoring Department				M					
Methodology Department				M					
Banking Inspection Department				M					

Members	Committees (by Functional Levels)									
	Policy Making		Policy Execution			Policy Support				
	MPC	FSC	CALM	SC	CC	COR&BCM	CMC	BC	CBC	
1	2	3	4	5	6	7	8	9	10	
Monetary Policy and Economic Analysis Department	2M	M	O							
Financial Stability Department	M	M		M	M					
Statistics and Reporting Department	M									
Open Market Operations Department	M	M	M							
Loan Management Department				M	M					
Payment Systems Department		M		M						
Information Technologies Department						M	M	M	M	
Operational Department						M				
Security Department						2M		M	M	
Cash Circulation Department								M		
Chief Accountant								M		
Financial Controlling Department			M		M		M	DH	DH	
Maintenance Department						M	M	M	2M	
Office for Banking System Strategy and Reform						M	M			

Designation:

H – Head of the Committee; DH – Deputy Head of the Committee; M – member; O – nonvoting optional member.

MPC – Monetary Policy Committee; FSC – Financial Stability Committee; SC – Committee on Banking Supervision and Regulation, and Payment System Oversight; CC – Credit Committee; CALM – Assets and Liabilities Management Committee; CMC – Change Management Committee; BC – Budget Committee; CBC – Competitive Bidding Committee; COR&BCM – Committee on NBU Operational Risks and Business Continuity Management.

In accordance with the Law of Ukraine *On the National Bank of Ukraine*, the NBU Board delegates the right to make final decisions within the limits of defined competence to two committees: the Assets and Liabilities Management Committee and the Committee on Banking Regulation and Supervision, and Payment System Oversight. Other committees have an advisory capacity, meaning that the decisions they make become effective only upon approval of the NBU Board. Thus, the Monetary Policy Committee is an advisory body. Following meetings of the Monetary Policy Committee, meetings

of the NBU Board on monetary policy issues take place, where final decisions are made.

In addition, the Committee for Audit of Ukrainian Banks, which is a collegial body, operating under the laws of Ukraine and NBU regulations on the activities of banks and banking groups, resolutions of the NBU Board etc., operates in the NBU. The Committee for Audit of Ukrainian Banks consists of nine persons (six NBU representatives, and by one representative from the Audit Chamber of Ukraine, the National Securities and Stock Market Commission, the National Commission for State Regulation of Financial Services Markets).

Mandate of the NBU Committees

Committees	Mandate
1. Monetary Policy Committee	<p>An advisory body established to provide a forum for exchange of information and opinions on monetary policy formulation and implementation. The main objectives are to study and discuss the following issues:</p> <ul style="list-style-type: none"> • Formulating the principles of and implementing the monetary policy to attain goals and objectives defined by the applicable laws of Ukraine of the Monetary Policy Fundamentals; • Setting goals and targets of the monetary policy; • Application of the monetary policy instruments.
2. Financial Stability Committee	<p>An advisory and consultative collegial body that drafts proposals and recommendations on the formulation of principles and implementation of the macroprudential policy to ensure the financial stability. The main objectives of the Committee are as follows:</p> <ul style="list-style-type: none"> • Identify possible systemic risks, threatening the financial stability, and draft the proposals for minimizing their negative impact; • Develop recommendations on application of the macroprudential policy instruments, their aligning with microprudential measures and the monetary policy, and monitoring the results of their application; • Ensure the liaison of departments of the NBU in the development of recommendations on the financial stability.
3. Credit Committee	<p>An advisory and consultative collegial body, the main objectives of which are to develop and submit to the NBU Board recommendations on:</p> <ul style="list-style-type: none"> • Granting loans to banks to support their liquidity, except for transactions using standard instruments for regulating liquidity in the banking system, and the Deposit Guarantee Fund; • Formation (release) and use of reserves to cover the financial risks associated with impairment (depreciation) of NBU assets; • Work related to the repayment of loans received from the NBU by the banks classified as insolvent; • Methodology for assessing the credit risk (including the collateral appraisal) for the transactions of the NBU and its management.
4. Assets and Liabilities Management Committee	<p>A collegial body of the NBU with the powers and authorities delegated by the NBU Board under Article 17 of the Law of Ukraine <i>On the National Bank of Ukraine</i> to make decisions on the management of assets and liabilities, including gold and foreign exchange (international) reserves of Ukraine, ensuring</p>

5. Committee on Banking Supervision and Regulation, and Payment System Oversight	<p>the monitoring of risks and financial results of transactions with assets and liabilities of the NBU. The main objectives of the Committee are:</p> <ul style="list-style-type: none"> • Draft and implement the policy for effective management of assets and liabilities, including international reserves; • Determine and implement the investment strategy of the NBU for transactions on the placement of international reserves; • Determine currency interventions tactics and open markets actions; • Determine and implement the management policy of financial risks of international reserves and market risks of the NBU; • Ensure monitoring of market risks and financial results of transactions with assets and liabilities of the NBU.
6. Change Management Committee	<p>A collegial body with the powers and authorities delegated by the NBU Board under Article 17 of the Law of Ukraine <i>On the National Bank of Ukraine</i> for banking regulation and supervision, state regulation and supervision in the financial monitoring area, supervision (oversight) of payment systems, currency regulation and control. The main objectives of the Committee are as follows:</p> <ul style="list-style-type: none"> • Ensure sustainability and reliability of the banking system of Ukraine, and protecting the interests of depositors and other creditors of banks; • Address the priority issues of supervision over banks, their separate divisions and branches of foreign banks, and activities of the banking sector of the Ukrainian economy; • Determine the development trends in the banking system, develop systemic issues and, if necessary, submit appropriate proposals to the NBU Board; • Ensure coordination of work of the banking supervision service; • Implement enforcement actions/sanctions for violations of the banking legislation, legislation on financial monitoring, legislation on payment systems and funds transfers, statutory and regulatory enactments of the NBU, etc.; • Implement sanctions against non-bank resident financial institutions, state regulation and supervision in the financial monitoring area, which are regulated by the NBU for violations of legislation on financial monitoring; • Take measures to prevent crime and offenses in the banking system; • Promote the enhancement of legislative support for the implementation of banking regulation and supervision, state regulation and supervision in the financial monitoring area, supervision (oversight) of payment systems, initiating the new and improving the existing laws of Ukraine and statutory and regulatory enactments of the NBU.
7. Competitive Bidding Committee	<p>A collegial advisory body of the NBU Board established for the centralized management of project activities of the NBU to ensure changes in the direction of building a more modern and institutionally capable European central bank and the financial sector, including the banking system of Ukraine. The main objectives of the Committee are the centralized management of project activities of the NBU and the consideration of materials and proposals concerning the following:</p> <ul style="list-style-type: none"> • Initiation and implementation of changes in the NBU, including transformation of the NBU, optimization of its organizational structure, development and improvement of functions in lines of activity, improvement or introduction of new products, services, processes, standards, information systems and technologies, etc.; • Strategic programs and plans for the development of the financial sector and the banking system of Ukraine; • Strategic programs and plans for the development of the NBU, key findings regarding reports on their implementation within the project activities. <p>The Competitive Bidding Committee has been established in accordance with requirements of the Law of Ukraine <i>On Public Procurement</i>. The Committee is represented by officials of the NBU assigned responsible for organizing and</p>

8. Budget Committee	<p>carrying out the procurement procedures in accordance with the aforesaid Law of Ukraine. The following issues are subject to consideration at meetings of the Committee:</p> <ul style="list-style-type: none"> • Planning the implementation of procurement procedures; • Drawing up and approval of a public procurement annual plan, an annex to a public procurement annual plan and amendments thereto; • Selection of a procurement procedure; • Other issues under the Law of Ukraine <i>On Public Procurement</i>, statutory and regulatory enactments and executive directives of the NBU.
9. Committee on Operational Risks and Business Continuity Management of the NBU	<p>The Committee has been established to ensure the conditions for a professional discussion by heads of the NBU departments of the issues related to the maintenance of the NBU, which will improve the quality of managerial decision-making. The Committee is an advisory and consultative collegial body of the NBU that considers issues concerning the budget process of the NBU, the process of cost management within the NBU, acquisition and disposal of property of the NBU. The main objectives of the Committee are as follows:</p> <ul style="list-style-type: none"> • Promote the formation and implementation of the NBU’s policy aimed at enhancing the efficiency of the management of its financial resources; • Ensure implementation of the budget process and its integration with the strategic planning process to build an integrated system of governance of the NBU; • Promote the implementation of the process of cost management of the NBU to improve the economic feasibility of managerial decision-making in the field of financial and economic activity of the NBU. <p>A standing collegial body of the NBU, the main objective whereof is coordination of issues related to operational risk management of the NBU and consideration of proposals/ advisory decision-making:</p> <ul style="list-style-type: none"> • Define the operational risk management policy, business continuity, internal control policy of the NBU and insurance against risks; • Organize the process of the centralized management of operational risks and business continuity of the NBU; • Minimize and/or eliminate the operational risks that arise in the activities of the NBU; • Plan actions to minimize the risks of financial losses of the NBU; • Mitigate negative effects of contingencies for the activity of the NBU, in particular, its reputation, transactions, assets quality, market position and ability to fulfill the requirements of the legislation of Ukraine; • Determine the action plan and priorities of the NBU in terms of management of operational risks and business continuity of the NBU; • Monitor the implementation of action plans to minimize risks and providing the proposals for allocation of funds and overcoming the negative effects; • Develop and test the plans to ensure business continuity of the NBU; • Perform crisis response management in case of disruption of business continuity of the NBU, etc.
Committee for Audit of Ukrainian Banks	<p>The collegial body established by the NBU, the main functions whereof are to control the compliance of banks and audit firms with requirements of statutory and regulatory enactments of the NBU on external audit, monitoring the quality of an audit of annual financial statements, consolidated financial statements of banking groups and other information on financial and economic activity of banks conducted by the audit firms, as well as:</p> <ul style="list-style-type: none"> • Making decisions on entry an auditing firm to the Register of Audit Firms eligible to conduct bank audits, issue certificates (duplicate certificate) on entry of an audit firm to the specified Register, extension (denial of extension) of the certificate validity term, revocation of a certificate; • Consideration of information on the results of inspections of banks (in case of any discrepancies with the audit results) and informative written explanations from the banks and audit firms in terms of the external audit;
<p><i>The committee consists of six representatives from the National Bank, one representative of the Audit Chamber of Ukraine (by agreement), one representative of the National Commission for Securities and</i></p>	



Stock Market (by agreement), one representative of the National Commission for State Regulation of Financial Services Markets (by agreement).

- Making decisions on a bank's need to conduct a re-audit of its financial statements by another independent audit firm in the current year, prior to the beginning of a new accounting period (year);
- Hearing managers of audit firms and/or auditors that provide clarifications regarding the violations of the laws of Ukraine on the bank audit committed thereby;
- Application of enforcement measures to audit firms eligible to conduct bank audit commensurable to the violations committed in accordance with statutory and regulatory enactments of the NBU;
- Submitting to the Audit Chamber of Ukraine proposals on charging the auditors and/or audit firms with appropriate penalties stipulated by the Law of Ukraine *On Auditing Activity*, etc.

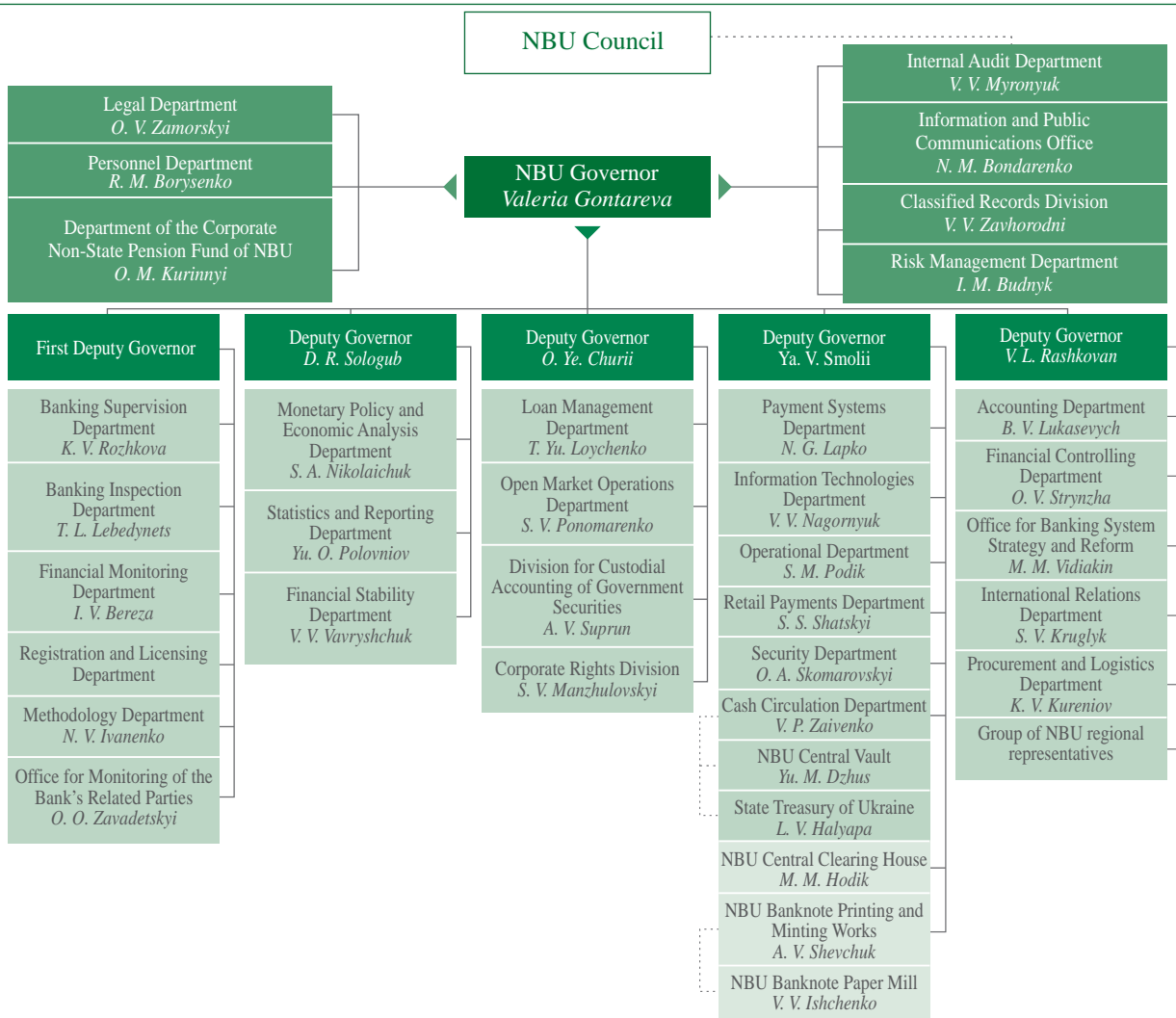
ORGANIZATIONAL CHART

» In 2015, the organizational structure of the NBU was altered principally to allow for implementation of innovative management approaches, significantly reduce hierarchy, and change the functions of structure units. Changes have taken place in different dimensions, namely, transition to the functionally-oriented structure was realized: from an autocratic to a more collegial one and from a hierarchical to a more flat one.

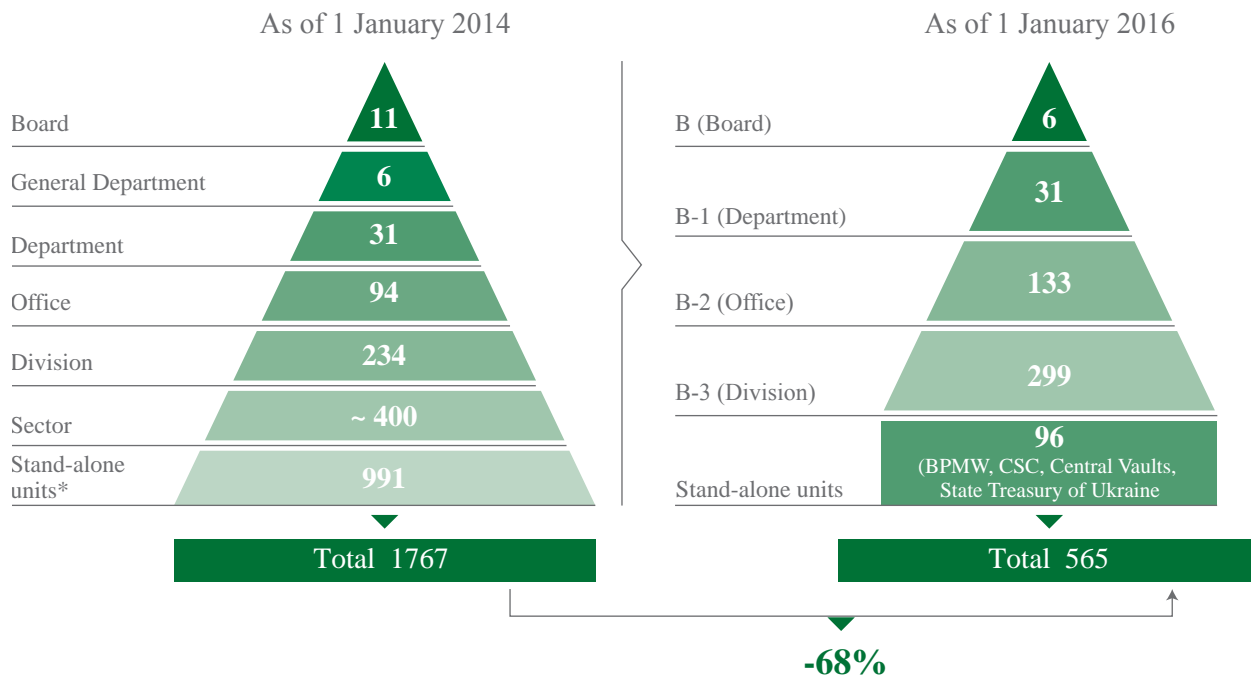
The new organizational structure of NBU focuses on 6 (six) key functional groups: monetary stability, prudential supervision, market operations, settlement

transactions, financial and administrative operations and units directly reporting to the NBU Governor.

Organizational Chart of the National Bank of Ukraine as of 1 January 2016



Hierarchy levels and number of managerial personnel (FTEs) in the NBU Central Office



**positions in the NBU Regional Offices, Operational Office, Central Settlement Chamber, Central Vaults, State Treasury, Team for International Credit Line Management, Main Administrative Office, Banknote Printing and Minting Works, Banknote Paper Mill, Centre for Scientific Research, Editorial Office for Periodicals, Directorate of the Corporate Non-State Pension Fund of the NBU, Museum of Money*

As a result of organizational changes, the number of hierarchical levels in the NBU has been reduced from five to three, which led, in turn, to the reduction of managerial positions by more than 60%.

In 2015, 25 regional offices, structural divisions, and structural units were removed from the structure of the NBU. As of 1 January 2016, the core organizational units of the NBU are

the central administration, separate divisions of the NBU, and legal entities established by the NBU for its activities.

The reduction of hierarchy levels and implementation of uniform rules of building the organizational structure improved the quality of management of the NBU.

Grouping the functions in key areas of activities has enabled a significant simplification of the management chain.

Major Changes in the NBU structure in 2015

NBU units excluded from the NBU structure in 2015:

NBU's educational establishments	▶	NBU's higher educational establishments transferred to the Ministry of Education and Science
NBU Regional Offices	▶	Functions of NBU Regional Offices are centralized, NBU ROs are transferred to a single bank code
Team for International Credit Facility Projects Management of the NBU	▶	The functions are transferred to a government institution controlled by the Ministry of Finance of Ukraine
Main Administrative Office	▶	Functions are centralized and it has been transferred to a single bank code
Banknote Paper Mill (BPM)	▶	To increase efficiency of banknote paper production management, the functions of BPM were transferred to BPMW
Detachment of Corporate Security for Protection of the NBU Sites Located in Kyiv	▶	Improvement of the NBU structure and optimization of the number of employees.
Information Security Department	▶	Improvement of the NBU structure and optimization of the number of employees. Functions were transferred to Security Department.

NBU units introduced in the NBU structure in 2015:

Bank Related Persons' Monitoring Office	▶	Increased control over banks' compliance with NBU regulatory requirements concerning operations with related parties
A group of NBU representatives in the regions of Ukraine	▶	Representing NBU interests in the respective region of Ukraine

NBU units reorganized in 2015:

Bank Inspection Department	▶	Department was closed and the new structural unit was created instead	▶	Banking Inspections Department
Department for Corporate Issues	▶	Department was closed and the new structural unit was created instead	▶	Information and Public Communications Office
			▶	Corporate Rights Division



COMPREHENSIVE PROGRAM FOR THE DEVELOPMENT OF UKRAINE'S FINANCIAL SECTOR UNTIL 2020

» *In 2015, the Comprehensive Program for Development of Ukraine's Financial Sector Until 2020¹ (hereinafter – the Comprehensive Program) was elaborated and approved. Its provisions define the stages, areas, and pace of movement of the financial sector reform in Ukraine. During the accounting year, the first stage of the Comprehensive Program Addressing Problems of the Past and Cleaning the Financial Sector was being realized; all of its tasks were mostly completed.*

The jump-start for the elaboration of the Comprehensive Program was signing of the Association Agreement with European Union by Ukraine. The choice of the European model of development and expansion of the financial sector, capable to ensure the sustainable economic development and competitive market environment, requires systemically addressing accumulated problems, the main ones being the rapid increase of the share of distressed assets on bank balance sheets, the significant outflow of deposits, the high level of dollarization of credits and deposits, as well as an insufficient amount of equity and regulatory capital of banks.

In February 2015, the National Reform Council identified 18 priority areas of reforms, among which there was a prescribed range of measures to renew the financial sector of Ukraine. The NBU, and personally Valeria Gontareva, its Governor, was designated as responsible for implementation of the financial sector reform.

To prepare a program of reforming the financial sector of Ukraine, in March 2015 the Target Team of reform management, which included representatives of regulators of the financial sector, began its work. Throughout March-April 2015, work focused on completion of the financial sector development, the backbone of which was formed by basic principles of the Strategy for Sustainable Development Ukraine-2020, the Association Agreement between Ukraine and the EU, the Memorandum of Cooperation with the IMF, and

the Agreement on the Coalition of Parliamentary Factions in the Verkhovna Rada of Ukraine of the eighth convocation.

The process of discussing the draft Comprehensive Program involved expert representatives and academia, who presented a number of suggestions and comments. While developing said program, the recommendations of international financial advisory and donor organizations were also taken into account. The draft Comprehensive Program presented obtained a positive assessment both from market participants and representatives of civil society institutions.

On 15 May 2015, the National Reform Council supported and approved the Comprehensive Program. The Comprehensive Program was approved by Resolution No. 391 of the NBU Council of 18 June 2015, Decision No. 931 of the National Commission for Securities and Stock Market of 30 June 2015, and Order No. 1367 of the National Commission for State Regulation of Financial Services Markets of 11 June 2015.

The main objective of the Comprehensive Program is to build a sound, operative, and effective financial market in Ukraine, to develop all its segments in a balanced manner, to build infrastructure, and to strengthen its resiliency to external threats. The realization of the Comprehensive Program is a way to accelerate the economic development of Ukraine and integration into the European economic area on a competitive basis.

1. For more information about the Comprehensive Program for Development of Ukraine's Financial Sector Until 2020 and the results of its realization, visit: The reform of the financial sector // Source of access: <http://reforms.in.ua/ua/reforms/reforma-finansovogo-sektoru>

The Comprehensive Program contains a detailed and transparent plan of actions and sets out the specific criteria for its performance. The Comprehensive Program will be realized in 3 stages:

Stage I.

Addressing problems of the past and cleanup of the financial sector (2014-2016);

Stage II.

Laying the foundation for development of the system (2015-2017);

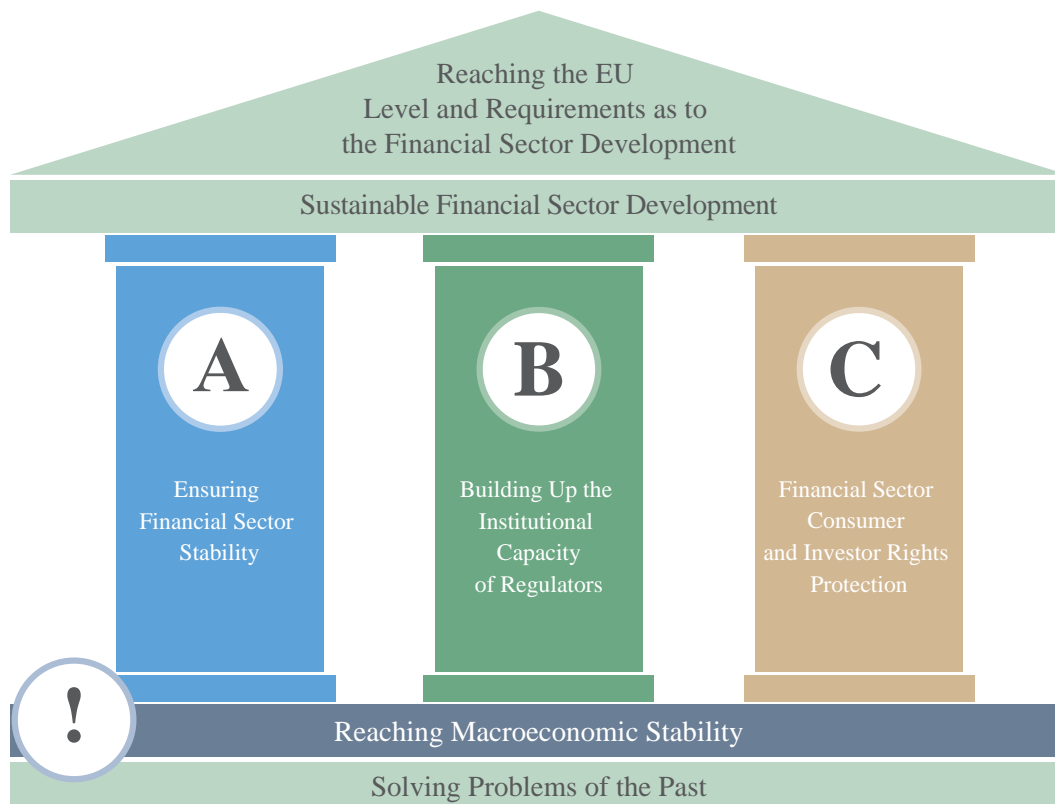
Stage III.

Realization of measures with regard to sustainable development (2017-2020).

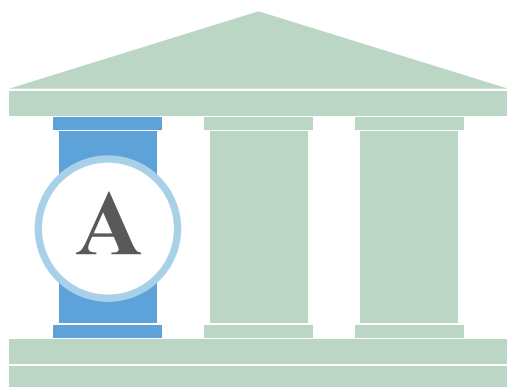
The main directions of realization of the Comprehensive Program were identified as follows:

- A. Ensuring financial stability and dynamic development of the financial sector;
- B. Expanding the institutional capacity of financial sector regulators;
- C. Protection of the rights of consumers and investors of the financial sector.

Major areas of implementing the Comprehensive Program



One of the main prerequisites for the effective implementation of the reform process in the financial sector of Ukraine in 2015 was stabilization of the macroeconomic situation. This goal was being achieved in many directions.



Within the “A” Block of the Comprehensive Program aimed at ensuring financial stability and dynamic development of the financial sector, the main attention focused on realization of the following measures:

- 1) Modernization of the regulatory and supervision systems.
- 2) Enhancing the transparency and stability of the financial markets.
- 3) Cleaning distressed assets from markets.
- 4) Ensuring the dynamic development of instruments and infrastructure of financial markets.
- 5) Improvement of the taxation system of financial sector participants.

The following actions can be attributed to the key results of the set of measures aimed at modernizing the regulation and supervision systems:

- The plan for gradual removal of exchange limits and preparation of the concept for liberalization of currency regulation was agreed with the IMF;
- The NBU Resolutions were adopted, under which: the mechanism of definition of a bank’s related parties was settled and strict requirements for banks to bring the volume of related-parties

transactions into compliance with legislative regulations were established;

- The diagnostics of related-parties transactions of largest 10 banks was completed;
- Banks developed and the regulator agreed their plans to bring the H9 ratio in line with regulatory requirements;
- A new method of diagnostic study and stress testing of banks was approved. Stress testing was performed on the top 20 largest banks, followed-up with developing appropriate programs for capital top-up. The first stage of recapitalization of the bank system was completed;
- Requirements for the authorized capital of banks were increased to UAH 500 million by 11 July 2024;
- A simplified procedure of capitalization and reorganization of banks was implemented;
- Considerable progress was achieved in the reformation of the banking supervision system and implementation of methodological approaches, based on Basel principles and promoting the transition from rules-based supervision to risk-based supervision;
- The new ranking of banks, the cluster approach to banking supervision, and the system of early responsiveness were introduced;
- The method for determining systemically important banks was approved, which involves the use of a multi-factor model and is based on the criteria of systemic importance;
- The mechanism of banks recovery was created by removing effects of depreciation (Law of Ukraine No. 913-VIII as of 24 December 2015)

To enhance the transparency and stability of financial markets, considerable work was done in the field of disclosure of the information about beneficial owners of banks. To that end, throughout 2015:

- The Law, which greatly strengthened the responsibility of owners and management of banks for bringing banks into bankruptcy, was adopted. Amendments to the Regulation on licensing banks were approved.
- Enforcement actions were approved for the failure to bring an ownership structure into compliance with transparency requirements;

- The regulatory framework for licensing non-bank financial institutions to conduct transactions on the purchase and sale of foreign currency was updated;
- To ensure transparency of the reporting to be submitted by banks, the Concept of target procedures of collection, processing, and use of bank reporting and information was approved, changes to the Rules of statistical reporting were agreed, and the main directions of reporting optimization were determined;
- Since 1 December 2015, banks have carried out financial accounting on the basis of International Financial Reporting Standards (IFRS); a series of training processes was performed for banks with the support of donors;
- A complex strategy for development of state-owned banks was elaborated and the roadmap for its implementation was prepared;
- A risk-based approach was implemented within the framework of financial monitoring approaches in line with combating laundering and legalization of “dirty” money.

Over the year, fruitful work, primarily legislative, was made to clean distressed assets from markets. The results of this work are as follows:

- Draft Laws of Ukraine Nos. 2286a and No. 2460a, aimed at protecting the rights of creditors;
- Draft Laws of Ukraine Nos. 2506a, 2507a, and 2508a on establishment of the institution of private executors;
- Draft Law of Ukraine No. 4004 On Restructuring Obligations of Citizens of Ukraine Under Loans in Foreign Currency Obtained for the Purchase of a Single Housing (Mortgage Loans);
- In the line of reforms towards “purification” of the banking sector, the main stage of the “purification” of the banking system was completed; during 2015, 30 insolvent banks were withdrawn from the market.

To ensure the dynamic development of instruments and infrastructure of the financial markets, over the year considerable progress was achieved in the field of extension of cashless

payments and reduction of cash circulation, within the framework of which:

- The realization of the Cashless Economy Project was initiated;
- The scope of the updated local national payment system (NSMEP-2) was expanded;
- The draft amendments to the Law of Ukraine *On Payment Systems* was developed to create conditions for functioning of international systems of Internet settlements in Ukraine;
- A simplified procedure was implemented for inserting data about international systems of Internet settlements into the register and the procedure of input/output of funds to/from such systems was established;
- The draft law was elaborated on the control over compliance with restrictions limiting amounts of cash settlements.
- As part of improving the taxation system of financial sector participants, a number of legislative initiatives were realized:
 - Law of Ukraine No. 321-VIII *On Amendments to the Tax Code of Ukraine Concerning Credit Obligations* of 9 April 2015, abolishing taxation of transactions to simplify debt, entered into force;
 - There were improved the tax rules for financial restructuring, which have been approved by Law of Ukraine No. 909-VIII *On Amendments to the Tax Code of Ukraine and Some Legislative Acts of Ukraine Related to Ensuring the Balance of Budget Revenues* in 2016 as of 24 December 2015;
 - To create a favorable system for taxation of the derivatives market, Draft Law of Ukraine No. 3499 *On Amendments to the Tax Code of Ukraine*, was prepared and registered on 20 November 2015 with the Verkhovna Rada;
 - To implement a mechanism of tax incentives for long-term investments, the Law of Ukraine No. 482-VIII *On Amendments to the Tax Code of Ukraine Concerning the Taxation of Incomes Received by Non-Residents Under Debt Obligations* was adopted on 22 May 2015.



The “B” Block of the Comprehensive Program is aimed at building the institutional capacity of financial sector regulators. Within this block, the major efforts over 2015 were directed towards:

- Ensuring the institutional independence of regulators.
- Improving the organizational effectiveness of regulators.
- Implementing the newest informational technologies in the work of regulators.

Since July of the last year, Ukraine has a truly independent central bank, in terms of realization of its policy.

To this effect, appropriate Laws have been drafted and adopted, in close cooperation with the Parliament, which significantly strengthened the institutional and financial independence of the NBU (Laws of Ukraine No. 541 and No. 542 of 18 June 2015).

To improve the organizational effectiveness of regulators, the NBU completed the first stage of

transformation, the outcome of which are the new organizational structure and the centralization of functions as well as the reformation of the network of territorial administrations; the NBU lost the majority of its non-core functions and optimized its staff structure: about 6,500 employees were laid off (more detail in the Section “Transformation of the NBU”). Also, in order to improve the organizational effectiveness of regulators in the NBU, a system of committees was built in 2015, which currently consists of 9 committees (more detail in the Section Committees of the NBU).

In addition, to improve the organizational effectiveness of regulators, Ukraine started to realize the project on reallocation of functions of the National Committee of Financial Services (NCFS) between the NBU and the National Commission for Securities and Stock Market (NCSSM). In the Verkhovna Rada of Ukraine, two bills are currently registered (No. 2413a and No. 2414a), which, if passed, will regulate the reallocation of functions. Over the year, the NBU carried out active preparatory work, including the start of the project to integrate NCFS functions: options for future organizational structure were being formed, its functional content was being defined, as well as consultations with the NCFS on the general principles of the supervision of non-bank financial institutions market.

During the year, the NBU put a number of measures into effect to implement the newest informational technologies in its work:

- The uniform requirements for the formation of taxonomies and the definition of common standards to file reporting in XBRL format started to be developed;
- The system of identification of individuals and legal entities was launched in test mode through Bank ID facilities to obtain administrative services by them.



The realization of the tasks of the Comprehensive Program's Block "C", aimed at strengthening protection of rights of consumers and investors of the financial market, was being carried out in two main directions:

- Encouraging the development of financial literacy of consumers and investors of the financial sector.


- Raising the standards of protection of rights of consumers and investors in the financial sector.


As part of efforts to encourage the development of financial literacy, the NBU built up a draft concept Improving the Financial Awareness in Ukraine and introduced the practice of preparing message-boxes as an instrument to form a unified information policy for all central government authorities. Moreover, the NBU implemented monthly press briefings (including video broadcast) according to the results of NBU Council decisions on monetary policy.

In order to protect the rights of consumers of the financial services, in 2015, Laws No. 2455 and No. 2456 of 23 March 2015 were developed for the implementation of EU Directive 2008/48 *On Credit Agreements for Consumers*, introducing the rules of disclosure for information on financial services and strengthening control and penalties for violation of consumers' rights. In addition to this, the concept of establishing a financial ombudsman institution was developed with participation of the NBU and the National Association of Banks of Ukraine.



Objectives and areas of the Comprehensive Program for Development of Ukraine's Financial Sector Until 2020

 Achievement of the macroeconomic stability	
Strategic Objectives	Operational Objectives
Implement monetary policy based on inflation targeting	Transit to targeting inflation
	Improve monetary policy instruments
	Ensure transparency in decision-making on NBU monetary policy
	Improve the communication strategy via new products
Establish a flexible exchange rate regime	Establish a flexible exchange rate regime as a basis for the exchange rate policy
	Repeal administrative restrictions in the foreign exchange market
	Develop and implement a plan for reduction of the high level of financial dollarization
Reduce the cost of money in the country	Enhance the role of the discount rate
	Introduce clear principles of applying instruments and procedures for liquidity regulation
	Approximate actual interest rates in the interbank market to rates defined by the monetary policy
Renew economic lending	Encourage increasing sources and volumes of local long-term financial resources
	Boost the development of the of local syndication and syndicated agreements market
	Boost the development of the of local syndication and syndicated agreements market

 Ensure the financial sustainability and dynamic development of the financial sector	
Modernize the regulation and supervision systems	Implement the principles of Basel III, IOSCO, IAIS, EIOPA
	Move to risk-based supervision and introduce means for consolidated supervision
	Change the rules for financial related-party transactions
	Establish a system of regular evaluation and control of asset quality, needs in liquidity support, and recapitalization
Enhance the transparency and stability of financial markets	Improve legislation concerning the merger of the financial sector participants

	Design a complex strategy of the development of state-owned banks
	Complete the transition to IFRS
	Improve requirements for the level of corporate governance of financial sector participants
	Tighten the requirements for risk-management system of financial sector participants
Remove distressed assets from markets	Improve legislation with regard to forced debt collection as well as foreclosure and sale of mortgaged property
	Shorten the procedures of foreclosure of subjects to mortgage in favor of creditors
	Simplify the legislation on bankruptcy of debtors and financial sector participants, having ensured the reduction of bankruptcy procedure
Ensure the dynamic development of instruments and infrastructure of financial markets	Initiate the Law of Ukraine on derivative instruments (derivatives)
	Realize the plan of implementation of the accumulation pension scheme
	Boost the development of the market of local syndication and syndicated agreements
	Expand the range of corporate debt securities
	Improve the settlement and clearing infrastructure of the financial market
Improve the system of taxation of the financial sector participants	Improve the legislation on taxation of non-bank financial institutions and consumers of their services
	Create a favorable taxation system for the derivatives market
	Develop a mechanism of tax incentives for long-term investments
	Support the establishment of the taxation system of the co-investing market



Build up the institutional capacity of regulators

Ensure the institutional independence of regulators	Increase the autonomy and independence of financial sector regulators
	Implement a system of Deposit Guarantee Fund (DGF) differentiated fees, considering assessment of banks' assets quality
	Enhance the role of a supervisory board (or a collegial body) of regulators
	Implement effective instruments of influence in order to provide for the efficiency of impact measures through all segments of the financial sector
Improve the organizational effectiveness of regulators	Identify a target model for functioning and a transformation roadmap for regulators
	Develop a system of specialized committees for each regulator for collegial decision-making



	Develop a communication strategy for all regulators of the financial sector
	Increase efficiency of the system for detection of ineffective financial sector participants
	Ensure the establishment of a single center of competence for sale of non-core assets
Improve work coordination between regulators and participants in the financial sector	Form a collegial body with participation of all financial sector regulators for regular discussions on sector problems and coordination of actions
	Establish a mechanism for the exchange of information between regulators
	Determine mechanisms of cooperation and increase the effectiveness of dialogue of regulators with the financial sector participants and self-regulatory organizations
	Formulate and implement requirements for key specialists of the financial sector
Implement emerging informational technologies	Implement the exchange of information according to the XBRL standard
	Transit to electronic document flow between financial institutions
	Introduce advanced IT-security standards in the financial sector
	Develop procedures for client identification without his/her physical presence
	Provide for accumulation of data being formed by each regulator in a single data warehouse



Protect consumers and investors' rights in the financial sector

Encourage the development of financial literacy of consumers and investors of the financial sector	Develop materials for the program of increasing financial literacy, together with market participants and financial institutions
	Update materials in line with the financial sector's development
	Introduce a system for raising awareness and training the population
	Regularly monitor the level of financial awareness of citizens and their understanding of key economic reforms
Improve the standards of protection of consumers and investors' rights in the financial sector	Raise the standards of information disclosure on financial services
	Establish clear sanctions for financial sector participants regarding the violation of the rights of financial services consumers
	Introduce a mechanism for protection of minority shareholders' rights
	Initiate establishment of the institution of the financial ombudsman
	Enhance transparency and ease of payments to depositors of banks under liquidation

Reforming the Financial Sector of Ukraine





PART II

FULFILLING THE NBU MANDATE



GOVERNOR'S ADDRESS

KEY POINTS: THE YEAR AT A GLANCE

MISSION, VISION AND VALUES

MANDATE OF THE NATIONAL BANK OF
UKRAINE

PART II. FULFILLING THE NBU MANDATE

MONETARY POLICY: OBJECTIVES AND IMPLEMENTATION

- Monetary Policy Objectives
- Strategic Initiatives in Monetary Policy
- Implementation of Monetary Policy and
Macroeconomic Environment
- International Reserves
- Monetary Development
- Changes in Monetary Instruments
- Crisis Response Measures in the Foreign Exchange Market

PROMOTING FINANCIAL STABILITY

- Situation in the Banking System
- Implementing Macroprudential Regulation
- Regulation and Supervision over Banks

PAYMENT SYSTEMS AND SETTLEMENTS

- Cash Circulation
- Payment Systems Regulation and Development
of Cashless Payments



DMYTRO SOLOGUB
Deputy Governor of the National
Bank of Ukraine



Changes in the NBU monetary policy, having taken place in 2015, were the first steps towards the target inflation level of 5% as of the end of 2019

The NBU monetary policy underwent major changes during 2015.

First, in response to the fast depreciation of the domestic currency and corresponding acceleration of headline inflation in the first quarter, the NBU adopted a rather tight monetary policy. Particularly, in February-March the key policy rate was raised twofold from 14.5% to 30% per annum. This was one of the most important prerequisites of the disinflationary trend, which in its turn, gave the NBU the possibility to start softening monetary policy in August. As a result, we gradually reduced the key policy rate from 30% to 22% per annum.

Second, in 2015, the NBU intensified preparations to shift to inflation targeting, where monetary policy will be aimed at ensuring price stability. In August, the NBU Board approved a draft Monetary Policy Strategy for the next four years, which should be approved by the NBU Council. This document provides for a path to reach the inflation level that we consider optimal, namely 5%. Target inflation will amount to 12% in 2016, 8% in 2017, 6% in 2018, and 5% by the end of 2019.

In preparation for the new regime, relevant institutional conditions for its operation were developed. The NBU received institutional independence and a legislative mandate on the priority of price stability. Fiscal policy dominance over monetary was brought to an end. In addition, the work of the Monetary Policy Committee was arranged, the Board's decision-making process in the sphere of monetary policy was adjusted to the announced schedule, an inflation report was prepared for quarterly publication, and communication on monetary policy was organized on a systemic basis.

Meanwhile, we brought the relevant instruments, mechanisms, and procedures in line with inflation targeting standards. We maintained a flexible exchange rate in the currency market, having introduced FX auctions to smooth exchange rate fluctuations.

Thus, in 2015, thorough work was done, allowing the NBU to begin the shift to inflation targeting as early as in 2016 and to bring inflation in Ukraine closer to the target level.

MONETARY POLICY: OBJECTIVES AND IMPLEMENTATION

Monetary Policy Objectives



Pursuant to the Constitution of Ukraine, ensuring the stability of the monetary unit of Ukraine is the main function of the NBU.

The content of the main function is explicated in the provisions of the Law of Ukraine *On the National Bank of Ukraine*: in its performance, the NBU shall proceed from the priority of achievement and maintenance of price stability. This includes preserving the purchasing power of the national currency by maintaining a low and stable inflation rate in the mid-term (from three to five years).

Basic principles of the monetary policy for 2015 defined a medium-term quantitative objective for inflation at 5% a year with a permissible deviation of one percentage point. The main objective of the monetary policy for 2015 is a maximum possible reduction of inflation on an annualized basis for the purpose of breaking the upward trend in its dynamics and providing a framework for achieving the medium-term objective.

Within the limits that do not interfere with the stability of the monetary currency, the monetary

policy shall also be aimed at promoting financial stability and adherence to sustainable economic growth, as well as support of the economic policy of the Cabinet of Ministers of Ukraine.

The monetary policy objectives for 2015 were outlined in the liabilities of Ukraine under the program of cooperation with the IMF.

The actual course of events at the beginning of 2015 evolved according to a much worse scenario than was foreseen by the Stand-By program signed in 2014. On this basis, Ukraine turned to the IMF with a request to start a new program of cooperation within the framework of an Extended Fund Facility (EFF), which provides for larger amounts and longer terms of financial support (signed in March 2015).

As part of the monetary policy, this program is aimed to ensure low and stable inflation rate, create appropriate conditions for implementing inflation targeting, a flexible exchange rate, accumulation of international reserves, and resolution of the banking system. Also, the program set quantitative efficiency criteria for net international reserves, net domestic assets, and the indicative objective of the monetary base.



Strategic Initiatives in Monetary Policy



In August 2015, the NBU Board approved the draft Strategy for Monetary Policy from 2016-2020. It provides a transition to inflation targeting by the end of 2016, and defines clear quantitative objectives for inflation and mechanisms for their achievement.

Monetary management over the coming years shall be based on the need to promote a gradual reduction of the inflation rate. It is aimed to achieve medium-term inflation goal of 5% at the end of 2019.

The trajectory of achieving the medium-term objective for inflation is determined as follows:

12% with possible deviation +/- 3% at the end of 2016,

8% +/- 2% at the end of 2017,

6% +/- 2% at the end of 2018, and

5% +/- 1% at the end of 2019.

The objective is a fixed value as opposed to the inflation forecast, which is a calculated value that may vary depending on actual and expected trends in the economy. Monetary policy is aimed at achieving the objectives. If the inflation differs from its objective level according to the forecast calculations, the central bank shall use monetary policy instruments to return it to the objective.

Basic principles of the monetary policy for 2016 – 2020 are the following:

- 1) unconditional priority of achievement and maintenance of price stability compared to other goals and objectives of the monetary policy;
- 2) adherence to a floating exchange rate. The exchange rate is largely determined by market conditions without preliminary establishment of the desired or forecast value. However, if

necessary, the NBU shall make interventions in the foreign exchange market in order to replenish international reserves or to prevent excessive exchange rate fluctuations;

- 3) long-term nature of decision-making. The decisions in relation to the parameters of the monetary policy are based on a comprehensive macroeconomic analysis and forecast;
- 4) transparency of the activity of the NBU. Detailed explanations of actions of the NBU and reasons that caused it shall be presented to market participants immediately after making a decision (by publishing press releases and comments, holding press briefings, etc.) and shall be summed up in official NBU analytical documents, which are regularly posted on the official NBU website;
- 5) institutional, financial, and operational independence of the NBU. The NBU shall not use monetary policy instruments to achieve any objectives that threaten price stability.

The NBU shall achieve objectives related to inflation, primarily by changing the key interest rate of the monetary policy (synchronized with the discount rate) – the interest rate on NBU operations, with the greatest impact on the money market. Other monetary policy instruments shall play a supporting role, facilitating effacement of consequential effects of the policy's changed interest rate on the economy, as well as the balanced development of the financial markets.

Implementation of Monetary Policy and Macroeconomic Environment



In 2015, the NBU maintained a tight monetary policy, aimed at reducing inflation after it reached its peak in spring due to a number of fundamental factors and increases in administratively regulated tariffs. Monetary and administrative tools were widely used to stabilize the monetary market.

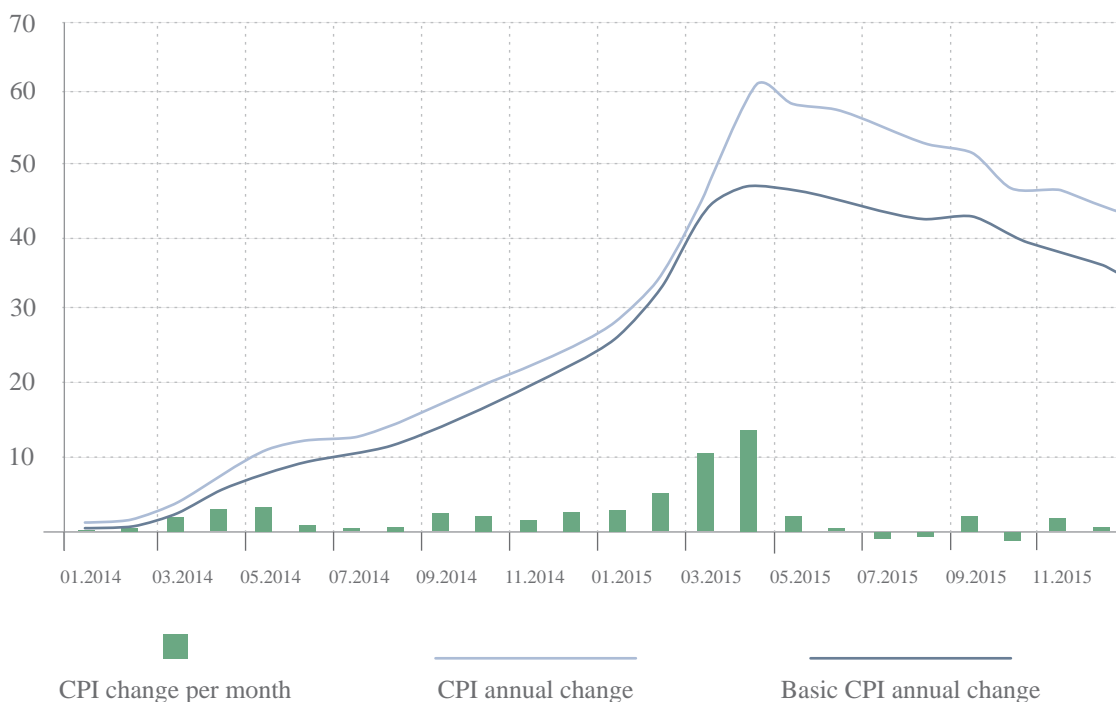
In the first quarter of 2015, the monetary policy was implemented under stressful circumstances. The fall of the actual GDP increased to 17.0% per year (up to 3.5% compared to the fourth quarter of 2014, less any seasonal factors). Destruction of the infrastructure, reduction of enterprises' workloads in the east of the country, and breaking of industrial ties with other regions resulted in acceleration of the economic downturn. The subsequent fall of world prices of commodity export goods and restrictions in traffic with Russia led to an export reduction. Domestic demand also decreased: consumer demand fell due to the reduction of the purchasing capacity of the population, and investment demand - due to significant geopolitical risks, as well as limited access to financial resources.

A significant decline in economic activity weakened expectations due to the aggravation of the military conflict in eastern Ukraine early in the year. It provoked a surge of devaluation with significant acceleration of headline inflation. Thus, the devaluation of hryvnia exchange rate against the US dollar in January-February accelerated to 76%, and the consumer price index (CPI) for April increased only by 14.0% and reached 60.9% per year. A planned increase of administratively regulated tariffs affected the inflation in addition to devaluation.

The NBU estimates such depreciation of hryvnia as excessive and out of line with fundamental macroeconomic parameters.

In order to stop rapid deterioration of the monetary market situation and reduction of negative expectations of exchange and price dynamics, the NBU took decisive actions. In particular, the discount rate was raised: on 6 February 2015 – from 14% to 19.5%, and on 4 March 2015 – up to 30% per year. Also, a series of administrative restrictions

Change of price indices, %



were introduced aimed to improve the rhythm of exchange earnings to the market and at preventing unproductive capital outflow from the country.

Despite difficult conditions and in order to improve the efficiency and transparency of monetary policy, the NBU decided to change operational approaches to monetary policy after 5 February 2015. The practice of daily exchange auctions and hryvnia indicative rate announcements were abrogated, which helped to restore the signaling function of the official exchange rate. In the second quarter of 2015, the freeze of the military conflict in Donbas (due to the entering into force of the Minsk agreements) resulted in a positive impact on the real economy sector. The processes of infrastructure and industrial relations reconstruction commenced and enterprises' workloads increased. Despite the downtrend in world prices for raw goods export and renewal of the restrictions in traffic with Russia, the export decline rate decreased. The investment activity decline has also slowed down. The decrease of real GDP in the second quarter of 2015 slowed to 14.7% per year (and to 1.4% compared to the first quarter of 2015, less any seasonal factors).

Certain macroeconomic stabilizations together with tough policy held by the NBU, i.e., approval of the EFF Program with the IMF, helped to stabilize expectations and reduce the depreciation pressure on the hryvnia. Thus, during March-June 2015, the hryvnia rate against the US dollar strengthened by 24.3%.

Strengthening of hryvnia rate was the signal for a gradual restoration of confidence in the banking system. While in February 2015 there was a slowdown in the outflow of deposits from the banking system, in April, the deposits of citizens in the national currency began to grow.

The onset of certain balance in the foreign exchange market has allowed the NBU to ease administrative restrictions introduced in the first quarter. In particular, one such measure was expanding the list of grounds for transfer of foreign currency by legal entities based on individual licenses of the NBU.

In the second half of 2015, there was an improvement of business expectations, driven by signs of the formation of positive trends in the real sector. In Q3 and Q4, the real GDP grew by 1.1% and 1.4%, respectively (in comparison with the previous quarter, less any seasonal factors). There was a slowdown of decline in real incomes, as well as an agriculture recovery. A steady trend in lower inflation was formed.

There were signs of stabilization on the monetary market in Q3 2015. The slow recovery of the inflow of deposits in national currency and slowing of the outflow of deposits in foreign currency continued. Taking into consideration the aforesaid, as well as the reduction of inflationary risks and formation of the stable trend of inflation reduction, the NBU started easing the monetary policy and the interest rate was gradually reduced from 30% to 22% per year.

Stabilization of the exchange market and receipt of the second tranche of financial aid from the IMF provided an opportunity to alleviate administrative constraints and facilitate control by authorized banks over individual transactions of residents.

In Q4 2015, the turbulence of the foreign exchange market intensified. The reasons for this were both external factors (weakening of the exchange rates of countries, which are major trading partners, further lowering of prices for key Ukrainian export commodities, etc.) and internal (an increase of uncertainty due to the slow budget process and delay of official financing). As a result, a moderate decrease in the hryvnia exchange rate against the US dollar occurred. Under such conditions, the NBU, on the basis of compliance with forming a flexible exchange rate regime, did not oppose steady trends in the dynamics of the exchange rate, but smoothed its excessive fluctuations.

Despite a steady inflation downtrend in October and at the end of 2015, the NBU did not change the key policy rate, taking into account the activation of inflation risks. The restrained monetary policy helped to reduce headline inflation down to 43.3% by the end of the year.

International Reserves



In 2015, the volume of international reserves increased by 77% or USD 5.8 billion – up to USD 13.3 billion. The mentioned amount covered 3.4 months of imports and was sufficient to meet the obligations and current transactions of the Government and the NBU.

The increase in the volume of international reserves was primarily due to revenues from the IMF and other international organizations, floating of government bonds of Ukraine and bonds of a foreign government loan, swap transactions with foreign banks, and other factors. In particular, USD 6.5 billion was received from the IMF, USD 1 billion from the World Bank, government Eurobonds were floated based on a U.S. governmental guarantee in the amount of USD 1 billion, and loans from the European Commission were received in the amount of USD 0.9 billion.

However, due to the deferral of funding from the IMF and other donors, international reserves' subsequent results for the year were lower than planned.

The NBU expected an increase in 2015 up to USD 15-18 billion. But these forecasts were based with regard to receiving the third and fourth IMF tranches to Ukraine, which Ukraine did not receive in 2015.

In terms of the flexible exchange rate, the current account of the balance of payments of Ukraine reached equilibrium, as its deficit decreased to 0.2% of GDP from 3.5% of GDP in 2014. As a result, the pressure on international reserves on the part of current account was leveled.

However, a small amount of interbank foreign exchange market and excess of demand over supply during most of the year determined limited powers of the NBU in the accrual of international reserves by means of interventions.

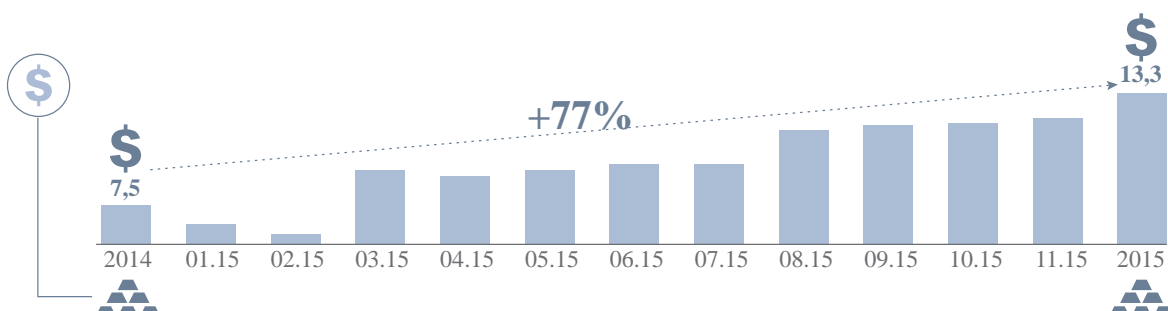
The NBU purchased foreign currency to build reserves directly in the interbank exchange market and in the currency auctions introduced in September last year. Purchase of currency by the central bank was in small amounts, if the supply of foreign currency on the interbank market exceeded the demand. In general, in 2015 the net purchase of foreign currency by the NBU during interventions and currency auctions (net of targeted interventions) was more than USD 1.5 billion.

At the same time, the NBU carried out the sale of foreign currency in the form of targeted interventions for settlement of payments for energy imports. The volume of targeted interventions amounted to nearly USD 1.7 billion.

In general, taking into account these transactions, the balance of foreign exchange interventions of the NBU in 2015 was close to zero.

The growth of reserves occurred despite the need of the government to make payments on extinguishment and maintenance of the public and publicly guaranteed debt in foreign currency. At the same time, restructuring of public and publicly guaranteed debt had a favorable impact on the volume of payments.

International reserves of Ukraine, USD billion



Towards European Standards in Statistics

The main objectives of the development of statistics in the NBU were transformation of the statistical function towards centralization and unification of collecting processes, reports control, distribution, and introduction of modern accounting standards.

Throughout the year, the function of collecting statistical reports submitted to the NBU was transferred to the level of the central office. Smooth collecting of statistical reports submitted to the NBU, data quality control and analysis, including by unifying reporting control procedures, distribution of the reporting calendar, and regular consultations, were ensured during centralization.

The "Statistics" section of the official NBU website was constantly updated and filled with relevant information. In particular, the set of indicators in the "Macroeconomics" section was significantly expanded, with current presentation of basic indicators of economic development of Ukraine. Publishing of the monetary and financial reports was standardized and launched with a regional aspect. These reports were previously submitted by regional offices of the NBU to regional state administrations and statistical offices.

Statistical function reforms covered the processes of reporting expansion in the NBU system. There were some works as to reporting centralization, submitted by external users. At the same time, we transformed reporting to management and specialists of the NBU, namely, a unified reports portal was formed and updated. The process of finding information and analysis was greatly simplified by means of a modern data visualization system, promoting quality improvements of taken decisions.

In Q3 2015, the transition to the compilation of external sector statistics was completed in accordance with the requirements of the sixth edition of the Regulations of the balance of payments and international investment position (IMF, 2009). Operational and ultimate data of monetary and financial statistics was unified for the purpose of comparison and compliance with standards.

Implementation of measures in *Strengthening of Current Principles of Financial Reporting for All Regulators of the Financial Sector in Ukraine through the Implementation of IFRS and FINREP-XBRL Taxonomy* was started according to the Comprehensive Program for Development of the Financial Sector of Ukraine until 2020 under the EU project *Technical Assistance in Priority Areas of the Financial Sector*.

Survey of business expectations

The regime of targeting monetary inflation is called "the regime targeting inflation expectations." The way the economic entities interpret actions of the central bank influences the quality of decisions taken by them, and consequently, the economic system efficiency in general.

Qualitative feedback from economic entities forms the basis of understanding the way the economy interprets decisions of the NBU, as well as a change of business expectations. Since 2006, the NBU has conducted a business expectations survey in accordance with a methodology that meets the highest international standards.

During 2015, this function was completely centralized at the central office. Web survey methods were implemented, the format of the analytical reports, which are published on the official NBU website quarterly and sent to respondents participating in the survey and who expressed a wish to get it, was improved. These innovations have strengthened bilateral communications of the NBU and agents of economic activity, raising the awareness of the influence of monetary policy on economic development and inflation processes.

Research Development

Reform of research capability

The year 2015 marked the beginning of research capability reform in the NBU aimed at: enhancing the role of research to ensure the needs in major functional areas of the regulator; improving the quality of research products; development of human capital in the NBU; and improving the NBU public image within the country and abroad by bringing the research to the level of other central banks in Central and Eastern Europe. As in other central banks, the main objectives of research activities are identified as follows:

- 1) Conduct research, relevant to the formulation of recommendations in main functional areas of the NBU (monetary policy, financial stability, banking supervision, etc.);
- 2) Disseminate new knowledge and communicate the research results through NBU publications (working materials and *Visnyk of the NBU*), publications in internationally recognized academic journals, as well as organization and participation in research conferences and seminars;
- 3) Support the decision-making process in the NBU through the development of modern analytical and modeling instruments.

In the organizational context, the reform involved decentralization of the research function, i.e., research is primarily done by NBU functional units' experts. Meanwhile, coordination and organization functions were assigned to the Research Division, created within the Monetary Policy and Economic Analysis Department. Such approach is also adopted by many other central banks, in particular, in Canada, Poland, Finland, Sweden, etc. According to the experience of these countries, the functions of the Research Division were identified as follows:

- initiating, organizing, and performing research projects in the NBU, as well as dissemination the obtained results in a series of the working papers and internationally recognized academic journals;
- promoting dissemination of results of current research and raising the level of economic

awareness among domestic academics and professionals through regular issue of scientific and practical journal *Visnyk of the NBU* with its subsequent integration into the international system of knowledge;

- organization of communication events in the NBU in the field of research, especially public research seminars, conferences, lectures, etc.

For more effective transformation of the NBU research function and its adaptation to the best international standards, the technical assistance of experts of the Bank of Canada was involved. Within the framework of this project there were received appropriate consultations and practical advice. In particular, the basic provisions of the research organization in the NBU and products of the research activities were determined, as well as the stages of their preparation; the holding of public research seminars was implemented and performance of research projects was started.

Communication research events

The important research function of central banks in many countries is to disseminate the research results among academics and experts. Therefore, since July 2015 in the NBU, the public research seminars were introduced to exchange experience and results of the research. The working language of public research seminars is English, thus, the participation stimulates the integration and convergence of national economic science to international academic standards.

Oleksiy Kryvtsov, Research Director of the International Economic Analysis Department of the Bank of Canada, started a series of public research seminars, where he presented the findings of his research *Recent Developments in Experimental Macroeconomics*. In 2015, Philipp Engler, Professor of Monetary Macroeconomics from the Free University of Berlin (*Sovereign risk, Interbank Freezes, and Aggregate Fluctuations*), Yuriy Gorodnichenko, Professor of the University of California, Berkeley (*Inflation Targeting Does Not Anchor Inflation Expectations: Evidence from*

Firms in New Zealand), and Andrei Kirilenko, Professor of Finance at the Brevan Howard Centre for Financial Analysis, Imperial College Business School (Speculations with Oil) also presented their research results.

Visnyk of the National Bank of Ukraine

In 2015, the *Visnyk of the NBU* was reformed in order to become a modern research journal of the central bank. Key changes were as follows:

- research-oriented publications of the journal;
- focus on problematic issues that are within the competence and functions of the NBU;
- availability of the journal for free viewing at the official NBU website;
- publication in two languages (Ukrainian and English with same content);
- issued quarterly.

The new Editorial Team of the journal was approved, which, in addition to specialists of the NBU, included representatives from international academic institutions, the Bank of Canada, and the IMF.

In order to avoid publishing unreasonable results, improper conclusions and allegations, plagiarism, etc., the review of articles coming to the Editorial Team for consideration is made by specialists and subject experts. The process is based on a “double-blind” peer review procedure, when authors and reviewers do not know each other. Such approach to the review of articles allows the NBU to ensure a high quality of materials published and compliance with standards of publishing ethics at the level set by the Committee on Publication Ethics (COPE) as well as the Publishing Ethics Resource Kit by the Elsevier publisher, which will facilitate further integration of the journal into international abstract databases.

In 2015, two issues of the *Visnyk of the NBU* were released in the new format. The first issue, published in September, was mainly devoted to problems of formation and realization of the monetary policy in the context of the transition to inflation targeting declared by the NBU. The second issue focused on financial stability matters and the ongoing work of the NBU to ensure consistency of the banking sector. The authors of the articles were both specialists of the NBU and representatives of domestic and foreign universities and expert circles.



OLEG CHURIY
Deputy Governor of the National
Bank of Ukraine



In 2015, we made a step forward and retained flexible exchange rate regime for hryvnia, mitigating excessive fluctuations with the help of administrative restrictions

Given the huge economic losses resulting from the military conflict in eastern Ukraine, panic on the foreign exchange market, and a fall in the global prices for Ukrainian exports, the NBU was faced with a difficult choice at the start of 2015. One option would have been to take a step backward, to a fixed exchange rate, which had created the illusion of stability for decades, at the expense of creating economic imbalance. The other option was to take a step forward, and maintain a flexible exchange rate, despite this decision being painful, it would gradually correct the economic imbalance and create an economic buffer against spillovers. So we chose to move forward.

Maintaining a flexible exchange rate was not enough – first and foremost we had to stabilize the hryvnia. With that in mind, from February through March 2015, the NBU added new administrative measures to the measures that it had introduced in 2014. These new measures hampered capital outflows and unscrupulous foreign exchange transactions. They also stabilized demand for foreign currency and ensured regular foreign currency supplies to the interbank foreign exchange market.

Apart from that, in the reporting year, the NBU smoothed out sharp exchange rate fluctuations. When there was a discrepancy between supply and demand, the NBU intervened in the foreign exchange market, preventing both depreciations and strengthenings of the hryvnia that were not in line with market factors. Indeed, after such unsupported fluctuations the exchange rate usually returns to its initial level, but the larger the fluctuations, the more damage they do to the economy.

The NBU's efforts, together with the implementation of the Minsk agreements and an Extended Fund Facility Arrangement entered into with the IMF, stabilized the foreign exchange market and strengthened the hryvnia exchange rate from UAH 30 per USD 1 in February to UAH 20-24 per USD 1 over the next ten months.

A stable foreign exchange market made for positive changes both in NBU policies and Ukraine's economy. Inflation slowed, and international reserves returned to growth. Since the need to take administrative measures gradually decreased, in the autumn of 2015, the NBU started to liberalize the measures. Moreover, in August last year, the NBU launched a review of Ukraine's entire legal basis for foreign exchange regulation that was in effect at that time, with the aim of putting into place new and more liberal foreign exchange controls. And most importantly, the NBU could finally start adopting inflation targeting, a monetary policy regime that will enable the central bank to perform its mandate of maintaining stable and low prices.

Monetary Development

» During 2015, the demand for money was low, due to several factors, including:

- reduced motivation to use the domestic currency as a means to preserve value due to depreciation and inflation in early 2015;
- washout of hryvnia from circulation in temporarily forfeited territories;
- spread of non-cash payments;
- decline in purchasing power of the population and its real income.

As a result, in 2015, the volume of cash outside banks has not changed. Accordingly, all of the money supply of the NBU remained in the banking system. Transactions of the NBU for support of the Deposit Guarantee Fund were the main source of increasing liquidity in the banking system, as well as government expenditure of funds after currency conversion in hryvnia.

As a result, during 2015, a structural liquidity surplus remained in the banking system. Under such conditions, the NBU affected the interest rates of the interbank credit market through liquidity withdrawal operations by placing NBU deposit certificates. Surplus balances placed on deposit certificates at the end of 2015 reached UAH 89.3 billion, increasing by UAH 69.7 billion per year.

At the same time, the NBU withdrew liquidity by selling government bonds. Due to the fact that the Ministry of Finance did not conduct operations in the market of government debt securities, it also

made possible to start a yield curve up to 10 years, which is an important element of the transmission mechanism of the monetary policy under inflation targeting.

In July 2015, the NBU entered the secondary market with an offer of government bonds from its portfolio. From that time until the end of 2015, government bonds of UAH 1.8 billion were sold. Sales of government bonds were held by public and anonymous trading on two stock exchanges (PFTS Stock Exchange and Perspective Stock Exchange), all the members of the exchange had access to these trades. In total 119 contracts were concluded at 20-22.5% per year. The minimum transaction amount was UAH 2,000, and the maximum - UAH 95 million (at face value).

In December 2015, the NBU also started auctions of government bonds*. Five auctions of government bonds were held during the month, four of which were effective. As a result, government bonds totaling UAH 150.9 million were sold (at face value). Nine contracts with a 19-19.5% annual yield were made during auctions. The minimum amount of the contract was UAH 288,000, and the maximum - UAH 32.8 million (at face value).

The outlined developments in the monetary market contributed to the fact that the quantitative efficiency criterion on net domestic assets and indicative target of the monetary base at the end of 2015, established under the IMF Extended Fund Facility Program (EFF), have been met with a considerable margin.

*In January 2016, the NBU stopped selling bonds from its portfolio in connection with the return of the Ministry of Finance to the local bond market.

Changes in Monetary Instruments

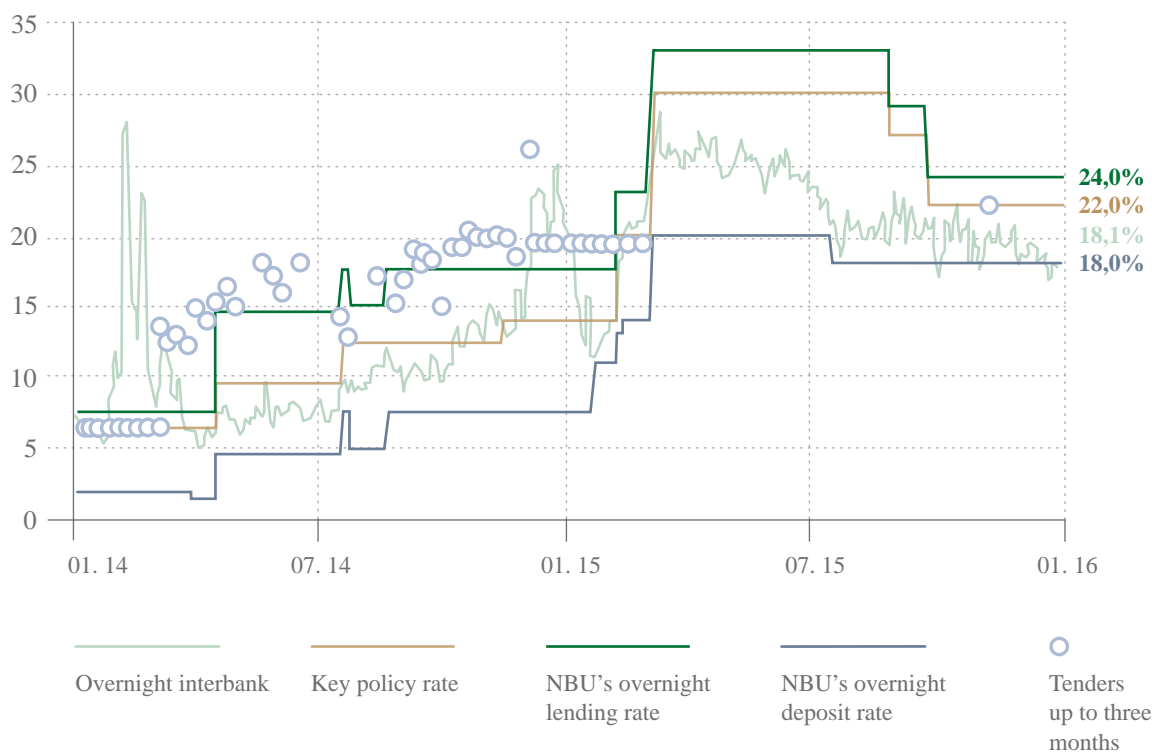
During 2015, the NBU improved approaches to monetary policy to make them closer to the practice of central banks pursuing inflation targeting.

First, the role of the discount rate of the NBU as a key policy rate has been strengthened through its closer link to deposit and lending rates on transactions regulating banking system liquidity.

The range between overnight deposit and lending rates was also narrowed down to ensure greater control of interest rate fluctuations in the interbank credit market.

At the same time, the procedure for creating and holding reserve requirements was simplified, in particular through the unification of reserve requirement ratios.

Interbank overnight rates and NBU interest rates, % per annum



Last year the NBU improved the standard liquidity tools and facilities as a prerequisite for the transition to inflation targeting.

Standing facilities were defined as overnight loans and overnight certificates of deposit.

The NBU reduced the terms of refinancing loans through tenders. Starting from December, the maximum term of the loan is 90 days instead of one year.

To make liquidity management transactions more flexible, the NBU allowed multiple bids during tenders (for both certificates of deposit and refinancing loans). Now, each bank may submit at the same time not just one but several bids with different parameters.

The NBU has optimized the list of assets eligible for use as collateral against refinancing loans, excluding those financial instruments that are not widely used in the stock market. In particular, these are mortgage bonds, securities of the State Mortgage Institution, municipal bonds, and more. Since the beginning of December, the NBU accepts only Ukrainian government bonds, certificates of deposit, five foreign currencies (USD, EUR, GBP, CHF, JPY),

and bonds of international financial organizations as collateral for refinancing loans.

In order to mitigate credit risks, the NBU changed the approach to determining the value of collateral for loans and credit transactions. Now the value of collateral is determined on market principles through fair value.

With the same purpose, the NBU straightened out the use of adjustment coefficients (discounts) applied to a fair value of collateral, depending on the characteristics of the securities provided as collateral.

The rule, requiring additional collateral from a bank if the fair value of pledged assets drops below the set limit, also contributes to risk mitigation.

Furthermore, signing a general contract is introduced not only for overnight loans but also for loans granted as the results of tenders. Individual credit agreements are not signed as the results of tenders. This measure simplified and accelerated the process of loan granting. It takes two days instead of five days from the announcement of the tender to the money transfer.



Crisis Response Measures in the Foreign Exchange Market



The hryvnia exchange rate became more volatile in early 2015, driven by the behavior of private individuals and businesses. The NBU responded by taking a number of anti-crisis measures on the monetary and foreign exchange markets.

First, the NBU adopted a stricter monetary policy. It raised the discount rate twice (to 19.5% per annum from 6 February 2015, and to 30% per annum from 4 March 2015), which had a bearing on the interest rates on its transactions with commercial banks, as well as increased reserve requirements. This made it possible to “bound” free bank liquidity and minimize potential pressure on the exchange rate and prices.

Second, with the purpose of addressing the panic on the foreign exchange market, the NBU introduced new administrative restrictions in addition to those that had been in place since 2014. These restrictions, among other things, included:

- forbidding banks to purchase foreign currency for their customers that already have foreign currency on their current and deposit accounts;
- putting a ban on the purchase of foreign currency cash using national currency loans and using loans secured by foreign currency;
- putting a ban on purchasing and transferring foreign currency with the aim of decreasing the authorized capital of legal entities and foreign investors leaving commercial partnerships;
- requiring confirmation that a bank customer who wants to purchase or transfer foreign currency

outside Ukraine, in particular to settle import transactions, has their tax affairs in order;

- introducing letters of credit as a required means of settlement for clients’ import transactions worth over USD 500,000, excluding import transactions to purchase goods that are indispensable to life;
- making advance payments under import contracts of clients worth over USD 50,000 conditional on the respective NBU confirmation.

In taking these measures, the NBU remained committed to a flexible exchange rate, which should be determined by fundamental market trends. The administrative measures aimed at smoothing out sharp fluctuations of the hryvnia exchange rate resulting from temporary factors, such as worsening expectations of private individuals and businesses.

These steps, together with the implementation of the Minsk agreements and the Extended Fund Facility that was entered into with the IMF, stopped the panic on the foreign exchange market, ensured regular foreign currency supplies to the market, and prevented capital outflow from Ukraine. The resulting gradual stabilization of the foreign exchange market made it possible for the NBU to start liberalizing foreign exchange regulation by the latter half of 2015 (see Foreign Exchange Liberalization Steps and Prospects Section).

Foreign Exchange Liberalization Steps and Prospects

Foreign exchange market stabilization in the second half of 2015 allowed the NBU to begin gradually easing the temporary currency restrictions introduced in 2014-2015 to prevent capital flight and stabilize the situation in the monetary and FX markets. To that effect, the NBU has pre-designed a plan approved in April 2015 for the gradual lifting of anti-crisis restrictions together with the IMF. This plan is based on compliance with certain conditions and it is not tied to specific deadlines.

The first phase of liberalization of the restrictions happened in September 2015 after the restructuring of public debt in the midst of international reserves growing and finalization of the banking sector cleanup process. Then, in particular, the amount of cash withdrawal in foreign currency and bank precious metals from customers' accounts was increased from UAH 15,000 to UAH 20,000 per day. The NBU plans to continue the gradual weakening or removal of exchange restrictions in 2016.

The intentions of the NBU on exchange rate liberalization go beyond the withdrawal of anti-crisis exchange restrictions. The regulator plans to perform a large-scale liberalization of currency regulation, which is currently difficult, scattered among numerous laws and regulations acts, and, consequently, difficult for banks, businesses, and the population.

In August 2015, the NBU established a working group with the participation of independent external experts both from Ukraine and abroad. In order to switch Ukraine to a more liberal model of currency regulation, the working group conducted an analysis of the regulatory framework, including the outdated 1993 Decree on Currency Regulation. At the end of 2015, a target currency regulation model was being drafted by analyzing the experiences of other transition economies. The next step is

the construction of a roadmap to implement this target model and the development of fundamentally new regulations. All results of the working group shall be discussed in public.

The priorities of the currency liberalization regulation are to build liquidity of the currency market, liberalization of direct foreign investments, and the liberalization of transactions of the balance of payments on the current account. First, the development of currency market liquidity involves: reducing the role of the NBU in determining the hryvnia rate and increases the role of the market; easing limits on currency transactions for banks; the introduction of market makers; and creating conditions for hedging currency risks. Second, to create a more liberal environment for FDI inflows, Ukraine should: reduce requirements for foreign exchange earnings from FDI; simplify conditions for debt in foreign currency converting in capital; and allow repatriation of dividends. Third, liberalization of transactions of the current account shall be started with simplification of conditions for export of services, including the removal of export of services from the foreign exchange control and with a reduction of the reserve period of funds in hryvnia for simplification of terms for export of goods.

The liberalization will proceed in several stages without any rigid time limits. Since the liberalization of currency regulation cannot take place isolated from changes in the economy, the implementation of each stage will be preceded by such conditions as macroeconomic stability, fiscal consolidation, improvement, dynamic development of the banking system, the accumulation of sufficient international reserves, supporting reforms, including judicial reforms, and strengthening of investor rights protection.

PROMOTING FINANCIAL STABILITY



KATERYNA ROZHKOVA
Deputy Governor of
the National Bank of Ukraine



I am convinced that even within three years the domestic banking system will have come into line with the best world practices.

“One only gets to the top rung on the ladder by steadily climbing up one at a time,” the Iron Lady Margaret Thatcher used to say.

These words clearly illustrate the actions our team has taken over the last two years.

Two years ago, we were at the bottom of the “ladder” and aware that getting to the top rung (i.e. reforming the banking sector) would be a very difficult and painful process.

More than once, the NBU had to make rather tough decisions. This was all done to achieve specific goals: stabilize Ukraine’s financial system, stop lawlessness in the banking sector, and build the foundations of a sound banking market.

Today, we can confidently say that we are halfway up the ladder. The banking system has been thoroughly cleansed of unviable zombie banks, shell banks, and non-transparent institutions. In 2015, tests were run on 20 banks, and the next 40 banks will be tested this year. Another important “rung” that our team has successfully scaled is disclosing banks’ beneficial owners. At present, the level of the banking system’s transparency is about 100%, compared to two years ago, when the NBU did not even know a third of the banks’ ultimate owners. Today, the central bank is involved in constant efforts to combat related party lending, which is one of the banking system’s most serious problems. A comprehensive analysis of the operations within the whole system under the Memorandum with the IMF will be completed by the end of 2016.

We’ve passed the point of no return, and one of the challenges we face is to prevent a setback.

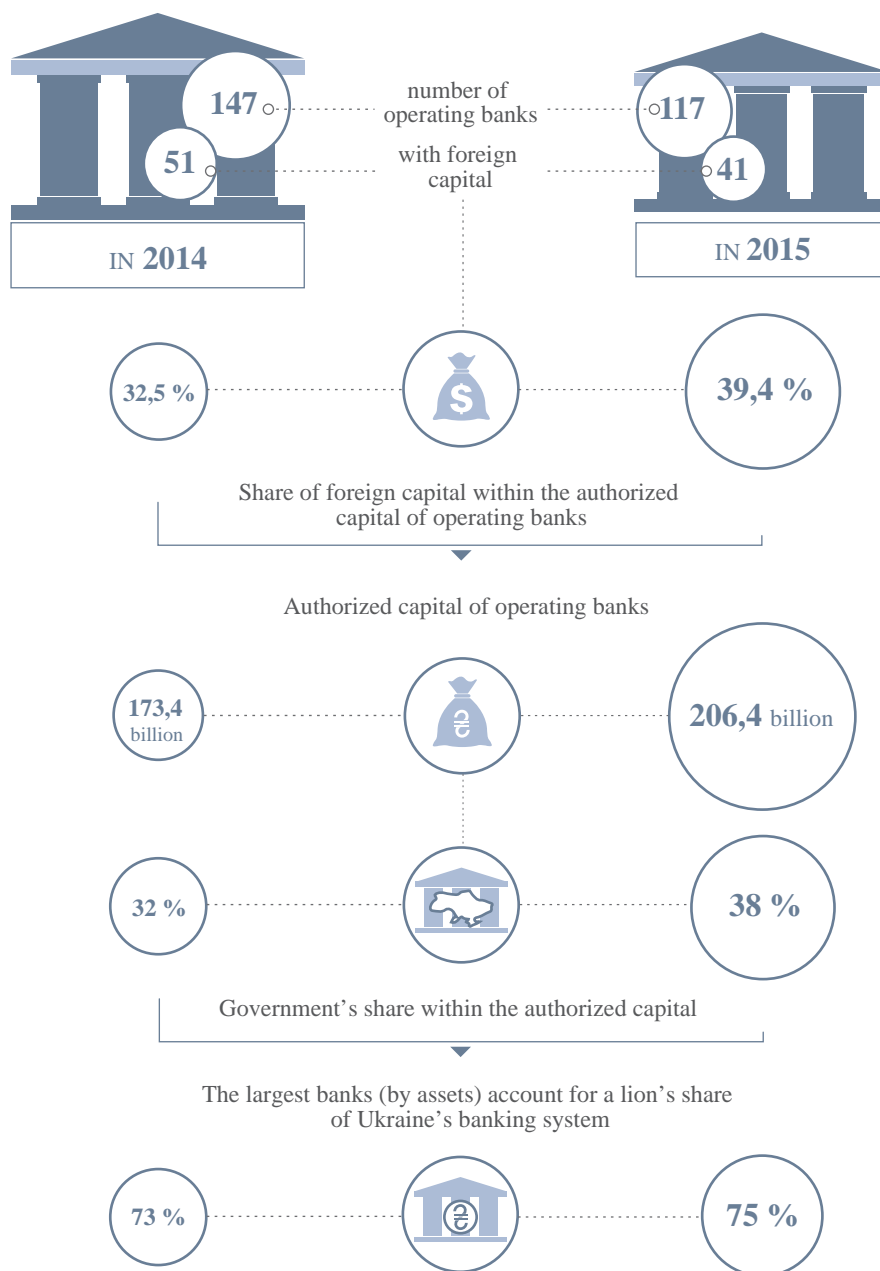
State-of-the-art macroprudential supervision was introduced to avoid the piling up of systemic risks. Strategic objectives include deep analysis of banks’ business models and the risks they may generate both for a bank and the banking system as a whole. At the same time, we will put all of our efforts to increase the protection of the rights of borrowers, lenders, and investors.

The regulator has ascended most of the ladder’s steps leading toward banking sector reform. But the top is still far ahead, and we have no right to stop halfway. I am convinced that even within three years the domestic banking system will have come into line with best world practices and turn into a reliable basis for Ukraine’s sustainable economic growth.

Situation in the Banking System

» Trends of development in the banking system during 2015 give evidence that the majority of solvent banks managed to adapt their work in the midst of the financial and economic crisis. The banking system as a whole shows operating profitability; the largest banks exercised or exercise a capital top-up to cover losses incurred; dishonest and insolvent banks are withdrawn from the market; and the inflow of deposits of companies and population is fixed. In 2016, the NBU will complete the cleanup of the banking system and begin the next stage – its resetting.

Situation in the banking system



Throughout 2015, the Ukrainian banking system worked in extremely difficult conditions. The military conflict in the east of Ukraine and the annexation of the Crimea as well as accumulated external imbalances and the deterioration of the situation on the world's commodity markets led to an economic recession, and caused a significant depreciation of the national currency and inflation spiral.

The major systemic risks, the realization of which had a negative impact on banks' activities, were the following: deterioration in the solvency of borrowers due to reduction of incomes of the population and unprofitable activities of many companies; narrowing the banks' resource base owing to the significant outflow of deposits over 2014-2015; exposure of creditors' rights; and geopolitical risks connected with the annexation of the Crimea and military actions in eastern Ukraine.

Nevertheless, the Ukrainian banking system as a whole has adapted itself to the new conditions: the major banks have already carried out the revaluation of assets, created additional reserves for crediting operations, and raised additional capital, as well as begun to review business-models. The joint work of banks and the NBU continues to restore the full operation of the banking sector, in particular, in terms of strengthening the solvency of banks by further capital increases and bringing the related-parties lending transactions to the standards established by the NBU.

The first priority for the NBU in 2015 was the cleanup of the banking system, i.e., the withdrawal from the market of unscrupulous participants and enhancing the transparency through disclosure of beneficial owners of banks. The regulator has almost completed the realization of the first stage of the Comprehensive Program

2020 *Cleanup of the Banking Sector*. As of 1 January 2016, 120 banking institutions, out of which 117 were operating, had an NBU license to perform banking activities.

Throughout 2015, the NBU:

- decided to assign 59 banks to the categories of troubled and insolvent ones;
- revoked the licenses to perform banking activities and initiated liquidation procedures for 43 banks as well as decided to liquidate two banks whose banking licenses had been revoked in 2014.

The key reason for these decisions was the performance by banks of risk activities that contradicted the requirements of legislation. In each case, the NBU had repeatedly demanded the owners and management of troubled/insolvent banks to take steps to improve the financial condition of the institutions. But these banks had not taken sufficient actions to stabilize their businesses (in particular, they had not adequately increased their capital to cover accumulated losses) and had not attained compliance with regulatory requirements.

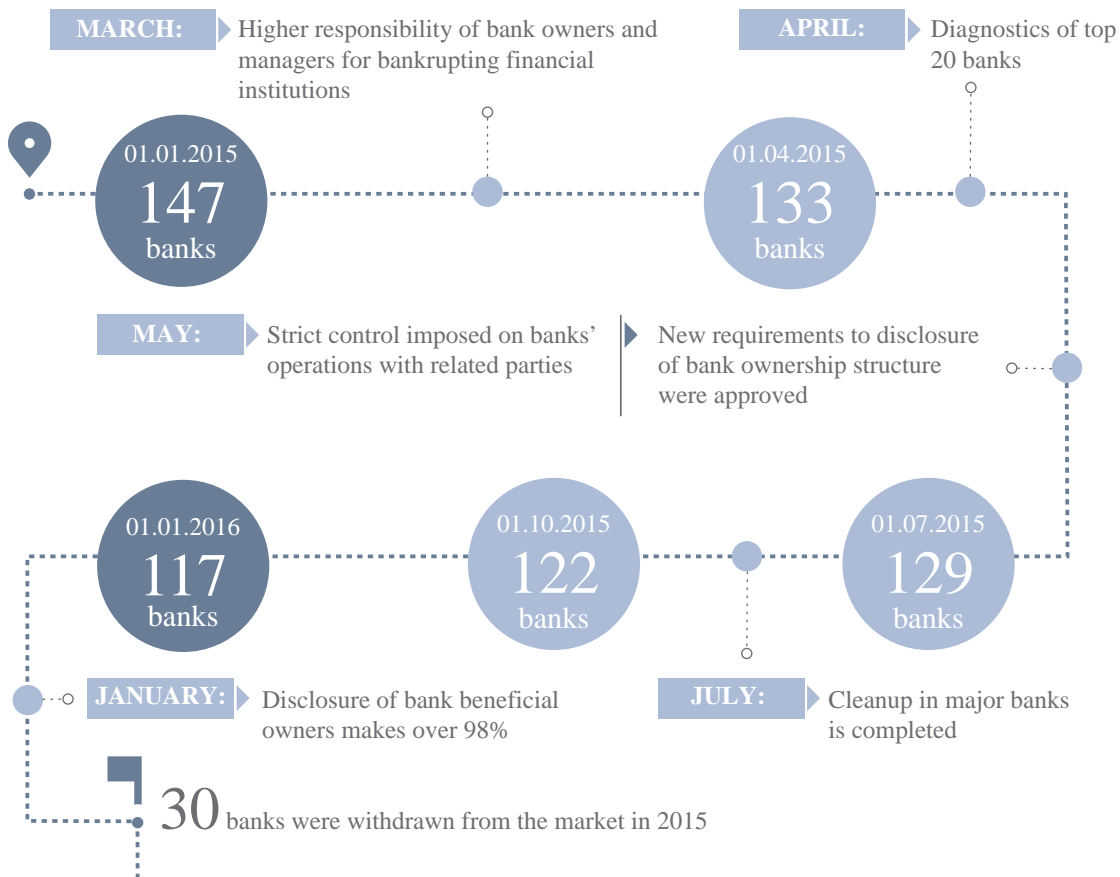
According to the results of actions regarding the cleanup of the system, quantitative and qualitative changes were made in the composition and structure of banking sector participants. The share of state-owned banks and banks with foreign capital significantly grew: at the beginning of 2016 the state's share in the authorized capital of solvent banks was 37.9% and the share of foreign capital was 39.4%. The share of assets of the five largest banks rose to 54% at the end of 2015 compared to 45% in 2014. The concentration increased by funds of individuals – 62%, due to both the withdrawal of many banks from the market and the mounting of depositors' confidence in large banks.

Cleanup of the banking sector in 2015*

Status of banks	Number of banks		Authorized capital, UAH billion	
	2015	2016	2015	2016
Operating	147	117	173,4	206,4
Insolvent	16	3	6,8	3,6
Overall banking system	163	120	180,2	210,0
In process of liquidation	22	62		

*Data as of the year beginning

Stages of Cleaning-Up the Banking System of Ukraine



OUTCOMES:

- healthy banking system;
- transparent ownership structure of banks;
- regaining trust in the banking system;
- "resetting" of the banking sector and moving to the third stage of the banking system reform – sustainable growth;
- bringing banks' capital to a minimum of UAH 120 million before mid-2016;
- completing banks' diagnostics and tightening control over lending to related persons;
- performing tasks specified in the Comprehensive Program for Development of Ukraine's Financial Sector Until 2020 (Cashless Economy project);
- loosening or lifting of temporary FX restrictions

The lending activity of banks over the accounting year remained low. Due to a decrease in the resource base as well as deterioration of solvency and payment discipline of borrowers, banks reduced credit financing for both businesses and citizens. Balances under loans (without accrued interests) of solvent banks in the national currency decreased by UAH 875 million and by USD 2.6 billion in foreign currency.

Due to high risks of loan defaults and significant portfolios of accumulated bad debts, banks mainly focused on debt restructuring in 2015 (through the extension of credit terms, interest rate revision, etc.) and maintaining constructive relations with existing creditworthy borrowers, as well as assignment and sale of troubled assets.

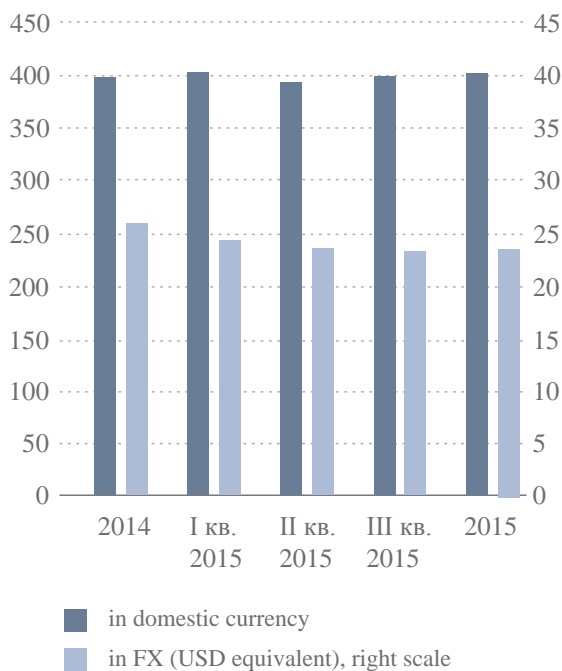
The share of foreign currency loans in the credit portfolio, due to the drop in the exchange rate, significantly increased (58% versus 51% as of 1

January 2015). The depreciation of the hryvnia led to problems with servicing such loans by borrowers lacking their own foreign currency earnings. In order to improve the situation, many banks launched programs to restructure foreign currency loans in 2015.

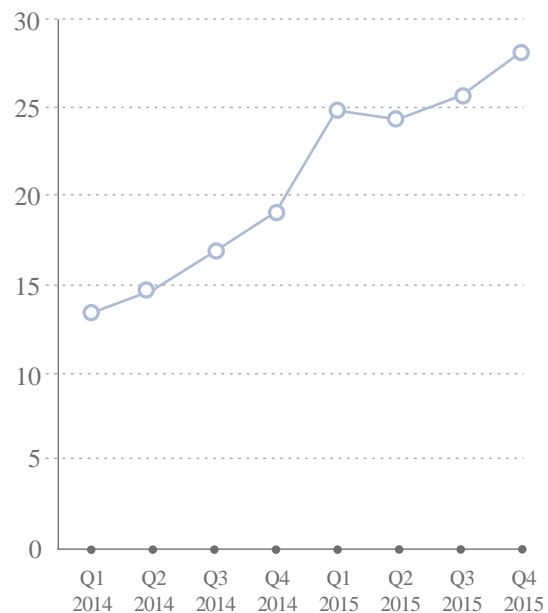
The quality of banks' assets in 2015 significantly deteriorated. The share of non-performing debts in the credit portfolios of operating banks as of 1 January 2016 was 28.2%, or UAH 365.6 billion (versus 18.4% and UAH 197.5 billion a year earlier). The quality of loans in foreign currency deteriorated to the most extent – the growth of volumes of bad debts amounted to USD 3.8 billion.

In light of retrenchment in lending operations, banks mainly invested their cleared funds in NBU certificates of deposit. Balances of funds placed in certificates of deposit nearly doubled in 2015, up to UAH 89.8 billion at the end of the year.

Loans given out by solvent banks, in currency unit billion



Ratio of non-secured NPLs to total gross loans, %



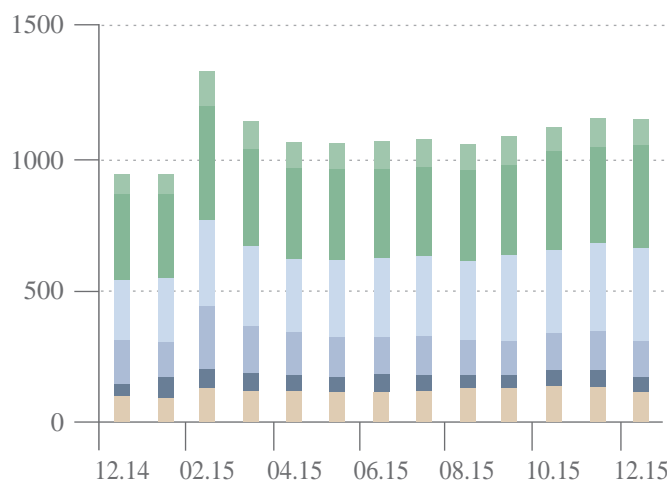
Funds from clients remained the main source of banks' resource bases: client deposit portfolios amounted to 64% of liabilities, including funds from individuals – 33.8% (UAH 389 billion), and funds from legal entities – 30.2% (UAH 348 billion). Such a high share of funds from individuals and legal entities is due to limited access of banks to other sources of financing, in particular, external debt markets. It is expected that the share of deposits in banks' liabilities will increase.

The aggregate volume of customer funds (funds of legal entities and individuals), net of changes due to revaluation of currency funds, increased by 9.6% in 2015. After a long period of panic, deposits of individuals in the national currency resumed growth since April 2015 (not including insolvent banks)

and at the end of the year their volume exceeded the pre-crisis level. Concurrently, household deposits in foreign currency have been decreasing since December 2015, and on the whole, their outflow over the year amounted to the equivalent of USD 2.3 billion (excluding banks declared insolvent).

In 2015, the banking system received UAH 199.2 billion of income, UAH 33.2 billion more than in 2014. The main item of income (67.8%) is interest yields. In terms of narrowed credit financing in 2015, banks expanded their range of services and intensified banking operations, which generated fee revenue. For 2015, fee revenues increased by 30.3% and its share in total revenues was 14.3%.

Bank liabilities, UAH billion



- due to international and other financial institutions
- due to legal entities
- due to the NBU
- due to individuals
- due to banks
- others



Customer funds in the banks resource base



Customer funds remained the main source of the banks' resource base

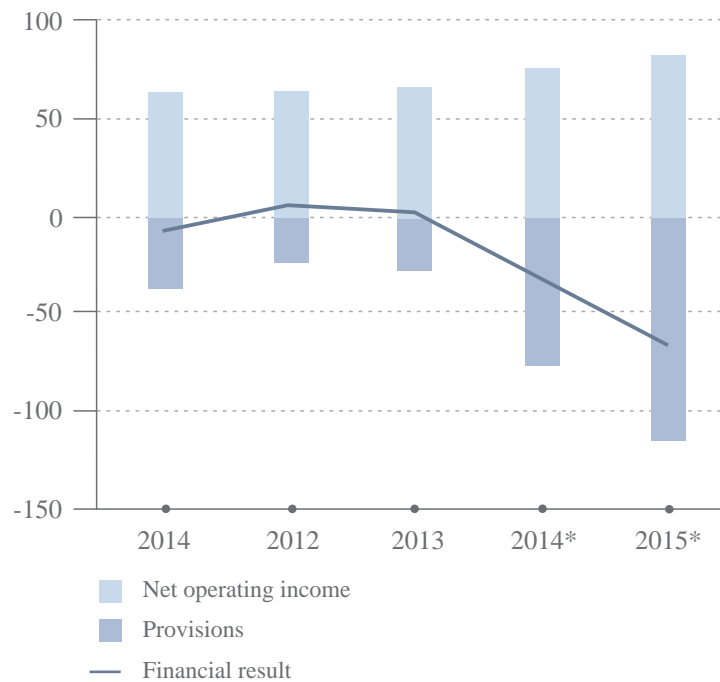
Income from trading operations, in comparison with 2014, increased by 70.5%, up to UAH 21.5 billion, which took place owing to profits from trading operations with derivative financial instruments (with growth by UAH 15.7 billion).

According to results of 2015, operating banks in Ukraine obtained an aggregate loss in the amount of UAH 66.6 billion. The main reason for losses was a significant increase of allowances for provisions, which, in comparison with 2014, increased by half and amounted to UAH 114.5 billion (43.1% of all expenses) over 2015. Along with that, the net operating income of banks for 2015 was positive and amounted to UAH 81.5 billion, which demonstrates the ability of the majority of banks to generate positive net operating cash flows in the future.

Since 2014, the NBU, following international practice, introduced regular diagnostic studies

of banks to determine additional capital needs for banks. The diagnostic study consists of two stages: a quality review of banks' assets and stress testing. Increases of banks' capital, as per findings of diagnostic study, enhance the financial stability of the banking system and create the necessary foundation for renewal of credit financing. In 2015, the 20 largest banks (by assets) were reviewed. As a result, it was found that 16 of the 20 major banks needed additional capital. The majority of them fulfilled their capitalization and restructuring program earlier than agreed to with the NBU. In 2016, the NBU will carry out diagnostic studies of next largest 40 banks. Therefore, a detailed analysis will be done with respect to the assets of 60 banks, comprising in aggregate over 98% of the banking sector. Additionally, the NBU has made, for the first time in its practice, a diagnosis of related party lending by banks. Based on the findings of

Financial result of solvent banks, UAH billion



**Data covers banks that were solvent as of the end of 2015*

the regulator, banks should develop and realize plans to reduce the volume of related party lending down to the requirements established by the regulator over the next three years.

Overall, the banking system of Ukraine has adapted itself to changes in economic conditions and is on the threshold of credit financing renewal. In 2016, the NBU plans to move to the second stage of

the Comprehensive Program Reset of the Banking Sector, which provides for improvement of transparency and equality in the “shareholder – management – client” chain, abolishing many administrative restrictions caused by the crisis, further increasing the capitalization of financial sector participants and strengthening the protection of rights of borrowers, lenders, and investors.



Implementing Macroprudential Regulation



After financial crises, especially in 2007-2008, the majority of central banks of the world have started to work on developing systems for assessment, monitoring, and prevention of systemic risk in order to enhance stability of the financial system. The result of this work was a series of decisions: methodological – above all, the development and implementation of Basel III recommendations, and organizational – the establishment of national and supranational inter-agency bodies (Financial Stability Board, European Systemic Risk Board), as well as legislative assignment of mandates to central banks for realization of macroprudential policy as a key instrument to ensure their financial stability.

The NBU also started working in the important area of macroprudential regulation, which aims to preserve financial stability. This regulation consists of macroprudential analysis, policy, development of modern models for macro-stress testing, and research in this area.

In June 2015, the Verkhovna Rada of Ukraine adopted amendments to the Law *On the National Bank of Ukraine*, having expanded the powers of the NBU – since then, along with achieving and maintaining price stability, the NBU will promote financial stability. Accordingly, it was determined under the Law that one of the functions of the NBU is the analysis of the financial system's standing in terms of financial stability. In practice, this means collection, synthesis, and dissemination of information on the standing of the financial system and risks that threaten its stability. The main task of the NBU in the area of financial stability is building

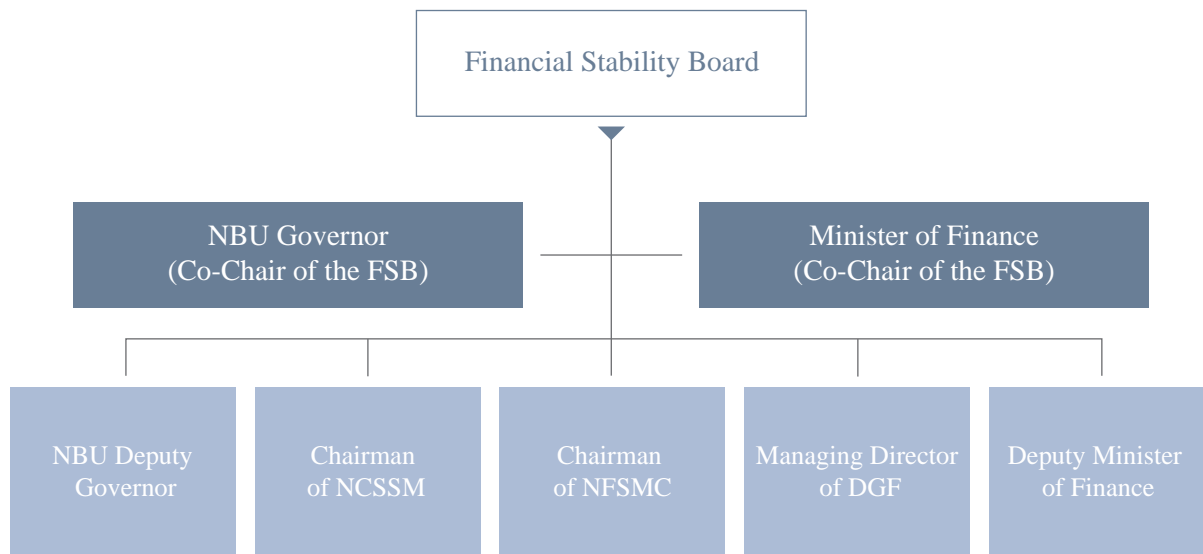
a system to timely detect risks that threaten the stability of the banking and financial systems of the state and to implement necessary actions and measures aimed to prevent these risks. The activities of the NBU Financial Stability Department, which started in March 2015, aimed at performing said tasks.

In addition, the interdepartmental high-profile Financial Stability Board (FSB), with the participation of leaders of key financial market regulators, was established in March 2015 by the Decree of the President of Ukraine. The FSB is a discussion forum for the exchange of information, timely detection of systemic risks, and coordination of regulators' actions to neutralize them.

The NBU shares responsibility for maintaining financial stability with the Ministry of Finance, the National Commission for Securities and Stock Market (NCSSM), the National Commission for State Regulation of Financial Services Market, and the DGF.

At regular meetings, members of the FSB exchange their visions of systemic risks and threats for the domestic financial system (the "typical" systemic risks, which are considered by the FSB and similar bodies abroad, can include shocks in international financial markets and the state of public debt). As a result of collective discussion, there is a synergy effect of further actions. This promotes "staying ahead of the game" –timely detecting future sources of crisis situations and taking necessary coordinated measures.

Financial Stability Board



The FSB is convoked at least once a quarter. As of the end of January 2016, five meetings were held. The open and reasoned discussion in the Board format contributed to a number of agreements that brought actual results. Among them: at the end of 2015, the DGF obtained from the Government an additional UAH 21.5 billion for payments to depositors of bankrupt banks; there appeared key preconditions that enabled the NBU to introduce a new monetary regime – an inflation targeting regime; the Government approved the Principles of strategic reformation of the state banking sector.

The Financial Stability Department provides the Board with administrative, informational, and analytical support. Following the results of meetings, the Board publishes press releases. It is also planned to prepare an annual report on its activities.

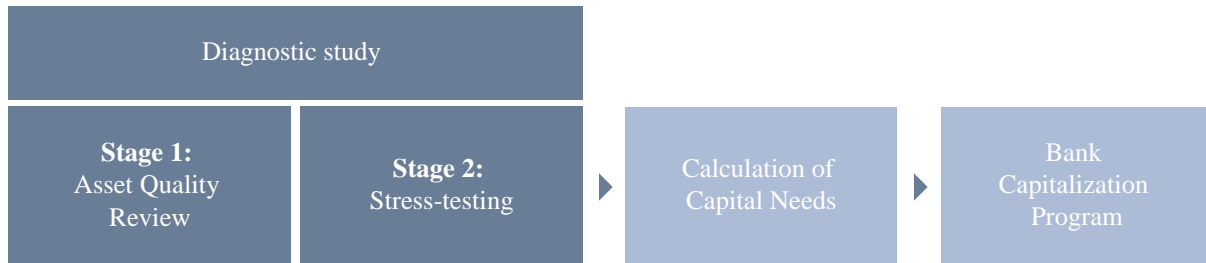
The important element of financial system stability is the NBU Financial Stability Committee, formed in May 2015. Its objectives are as follows:

- identification of possible systemic risks threatening financial stability;

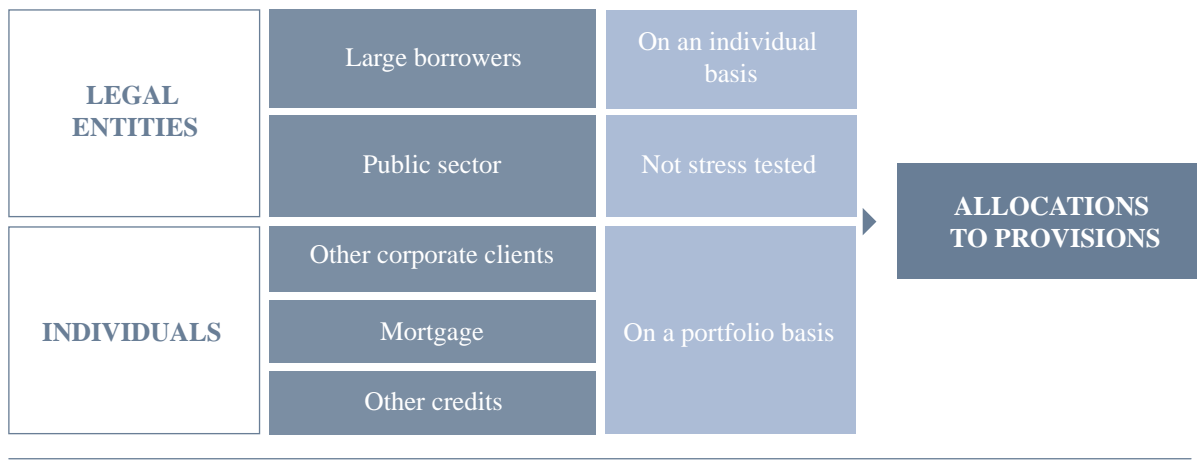
- development of proposals and recommendations on minimizing the impact of systemic risks, including through the use of macroprudential instruments and their consistency with macroprudential measures and monetary policy;
- formation of position of the NBU, which may be presented for consideration by the FSB.

An important stage in the development of the system of macroprudential regulation and supervision was the diagnostic study performed by the NBU in 2015 (including stress testing, which was conducted by the Financial Stability Department) with regard to the 20 largest banks on the basis of their own methodological groundwork, upon agreement with international partners. As a result, the needs for additional capital were detected and programs for additional capitalization of 16 out of the 20 banks were approved. The NBU plans to use the experience gained and the methodological development in the diagnostics of remaining banks. In the future, stress tests of the banking system should become regular.

Stages of the Diagnostic Study



Approaches to stress testing of credit portfolio components



The NBU made the first steps in the creation of macroprudential instruments according to Basel III guidelines, having introduced capital buffers for banks and a schedule of their application. The new

requirements will be implemented gradually and will take effect from 2020. The size of individual buffers will be specified closer to the implementation date, depending on conditions in the financial markets.

Capital requirements for banks according to Basel III guidelines

№	Instrument	2015 – 2019	2020
1.	Capital conservation buffer	Resolution of the NBU No. 312 ⁴	The buffer will be formed over 2020-2023 by 0.625 pp annually
2.	Countercyclical capital buffer	Resolution of the NBU No. 312	Depending on phase of the economic cycle, the buffer size will range from 0% to 2.5%
3.	Systemic importance buffer	Resolution of the NBU No. 312	The size will be defined differentially, depending on the category of systemic importance of the bank from 1% to 2%



⁴ Resolution of the NBU Board No. 312 of 12 May 2015 On Approval of Amendments to the Instruction on Procedure for Regulating Banks' Activities in Ukraine

Regulation and Supervision over Banks



In order to achieve a key objective of the Comprehensive Program – increasing sustainability of the banking system of Ukraine and protection of interests of depositors and creditors – banking supervision in the accounting year focused on:

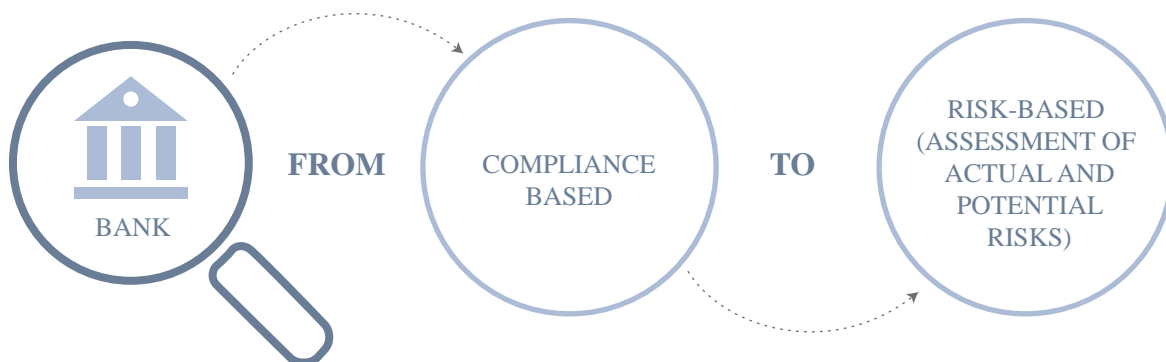
- raising the level of banks' capitalization;
- completion of the process of the banking sector cleanup;
- improvement of requirements for the transparency of ownership structures of banks (disclosure by banks of their ultimate beneficial owners);
- strengthening control over related-party lending transactions of banks;
- improvement and implementation of modern

instruments of risk assessment in line with international standards;

- enhancement of management and supervision of banks based on the assessment of business models;
- implementation of special requirements for systemically important banks;
- improvement of the quality of audit services in the banking sector.

Also, there were continuing actions to bring regulations on supervision of the banking sector in line with best international practices, in particular, the core principles for effective banking supervision of the Basel Committee on Banking Supervision.

Change of approach to establishing the banking supervision system



Improvement of supervision instruments

The main actions of the regulator were aimed at the transition from compliance-based supervision of banks to risk-based supervision and principles of continuous proactive monitoring. In particular:

- Identification of risk activities was introduced;
- The Early Warning System was modernized;
- New instruments – the system of complex assessment of banks' risk activities were implemented.

Identification of banks' risk activities

The amendments to the Law of Ukraine *On Banks and Banking* stipulated the prohibition for banks to carry out risk activities that threaten the interests of depositors or other bank creditors, as well as granted the right to the NBU to determine in its regulatory acts a list of features, the availability of which are the basis for the NBU to make conclusions about the performance by bank of such risk activities.

In 2015, the NBU identified the list of features of performance by bank of risk activities, including in terms of prevention and counteraction to legalization (laundering) of proceeds obtained through crime, terrorist financing, and financing of proliferation of weapons of mass destruction, as well as defined enforcement actions (NBU Board Resolution No. 778 of 10 November 2015). According to these, the regulator assesses banks' activities.

In July 2015, the Verkhovna Rada of Ukraine adopted the Law of Ukraine *On Amendments to Some Legislative Acts of Ukraine Concerning Improving of the Deposit Guarantee System of Individuals and Withdrawal of Insolvent Banks from the Market*, which was initiated by the DGF and the NBU.

To comply with the rules of the mentioned Law, NBU Board Resolution No. 942 of 24 December 2015 affirmed regulations on the procedure for pre-qualification of persons who may take part in withdrawal of insolvent banks from the market,

as well as approval of acquisition by them of participation in banks (agreed with the DGF). Said regulations determine the procedure for prequalification by the NBU of persons who may participate in withdrawal of insolvent banks from the market, approval of acquisition by such persons of substantial shareholding in banks, and listing of such persons by the NBU.

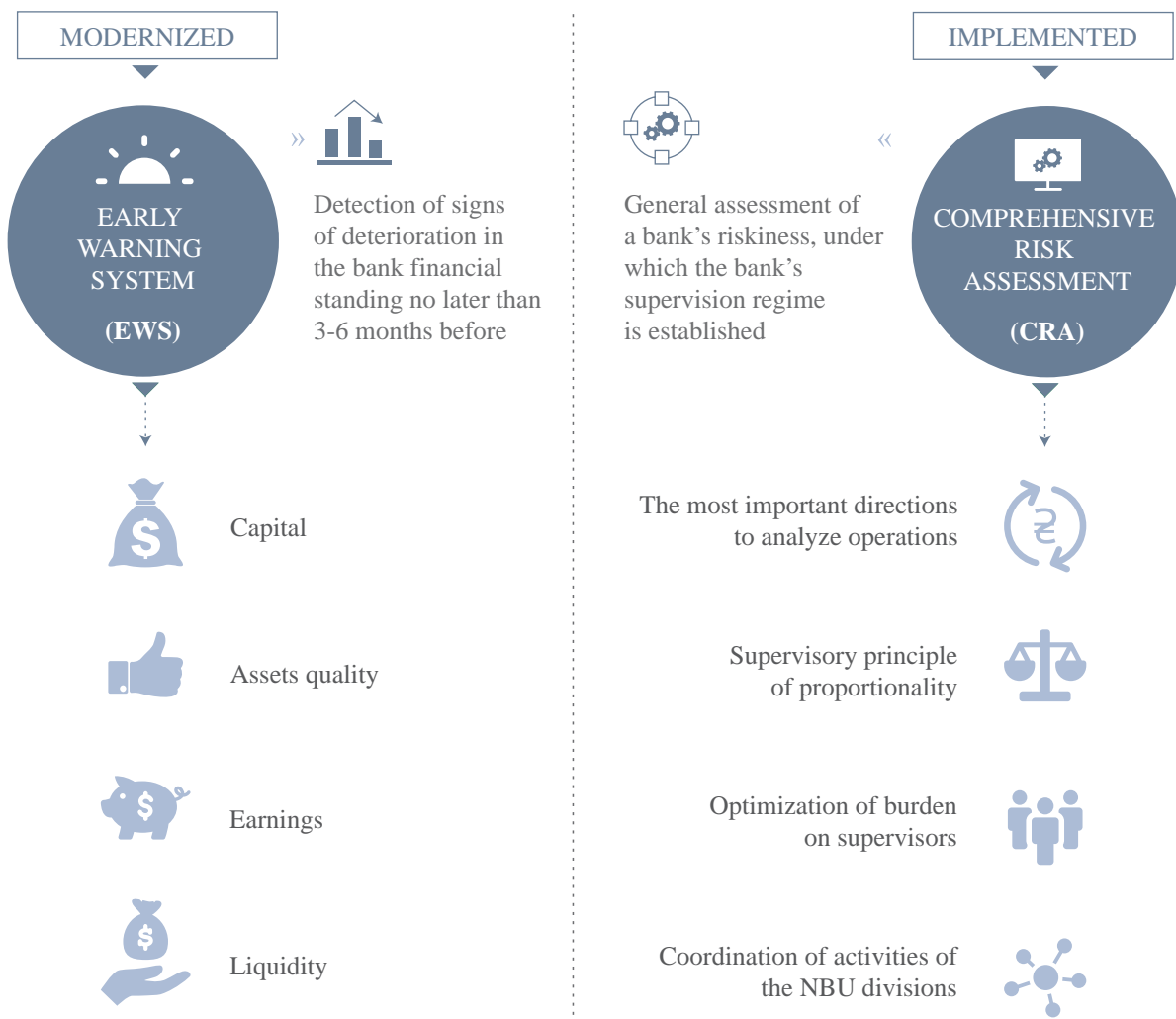
Early Warning System – EWS

The Early Warning System is designated for early (no later than 3-6 months before) detection of the signs of deterioration in a bank's financial standing. It is aimed not only at anticipatory detection of the risk of a possible appearance of problems, but also at timely identification of operating banks and banks whose activity trends point to the possible appearance of problems in the future. The Early Warning System covers such areas of risk assessment as capital, assets quality, liquidity, and earnings.

It is based on the analysis of statistical and financial reporting both of the individual bank, and through appraisal of peer banks. For each system indicator, thresholds are established so that their violations would signal in advance a possible appearance of problems in bank. Deterioration of indicators of the Early Warning System and/or violations of established thresholds would initiate appropriate supervisory procedures with regard to analysis of causes of such deterioration and/or violations, assessments of possible consequences of deterioration of the bank's financial standing in the future, and, if necessary, preparation of proposals for further supervisory actions or mitigation measures.

Thus, the Early Warning System is of a proactive nature and serves as support of the full management cycle – from calculation of indicators, regular monitoring of deterioration/violations, and analysis of results obtained to preparation of proposals for introduction of appropriate supervisor actions.

Mechanism of the Early Warning System and Comprehensive Risk Assessment System



Comprehensive risk assessment system (CRA)

The comprehensive risk assessment system (CRA) is intended to show a general assessment of a bank riskiness, under which a bank supervision regime is established. It combines both quantitative and qualitative indicators. When assessing overall risk, the NBU takes into account the transparency of the ownership structure, measure of support by shareholders of bank capital, level of sustainability of business-model, and other indicators.

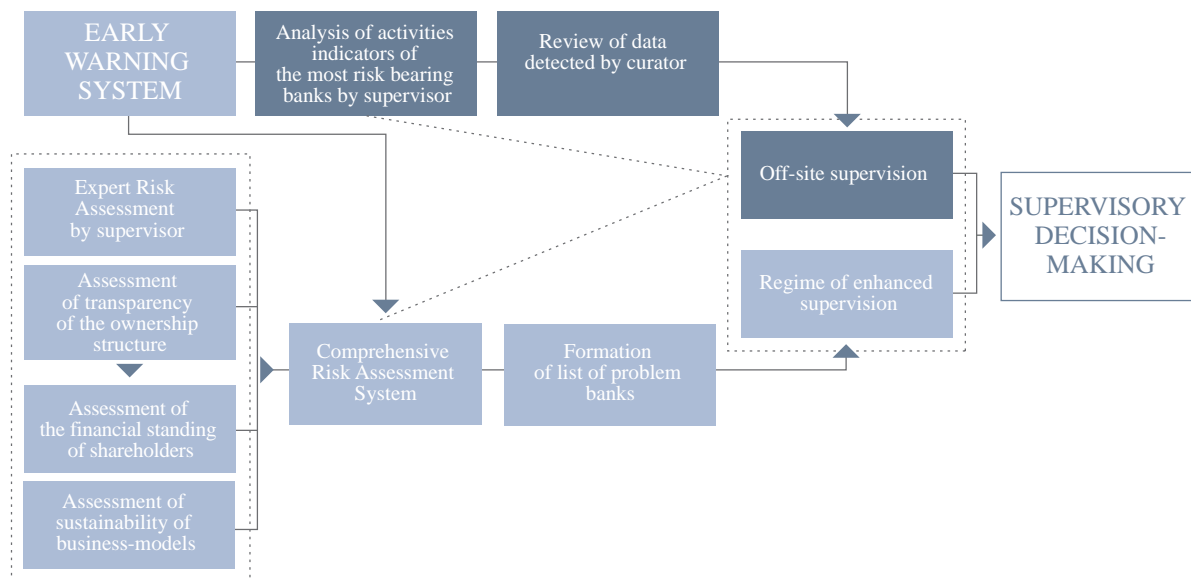
Application of the CRA system enables:

- identification of the most important directions for analysis of bank operations;

- adherence to the supervisory principle of proportionality, which underlines that the intensity of supervision should be proportional to the risk level of the bank and its possible impact on the stability of the whole banking system;
- optimization of the burden on supervisors and curators;
- coordination of the activities of various NBU divisions: supervisory departments, financial monitoring, and FX control, etc.

Thus, the results of assessment under the CRA system are used not only to determine a regime of on-site banking supervision, but also for the purposes of off-site banking supervision.

Place of Early Warning System and Comprehensive Risk Assessment System in the system of supervisory decision-making



Assessment of business-models of banks

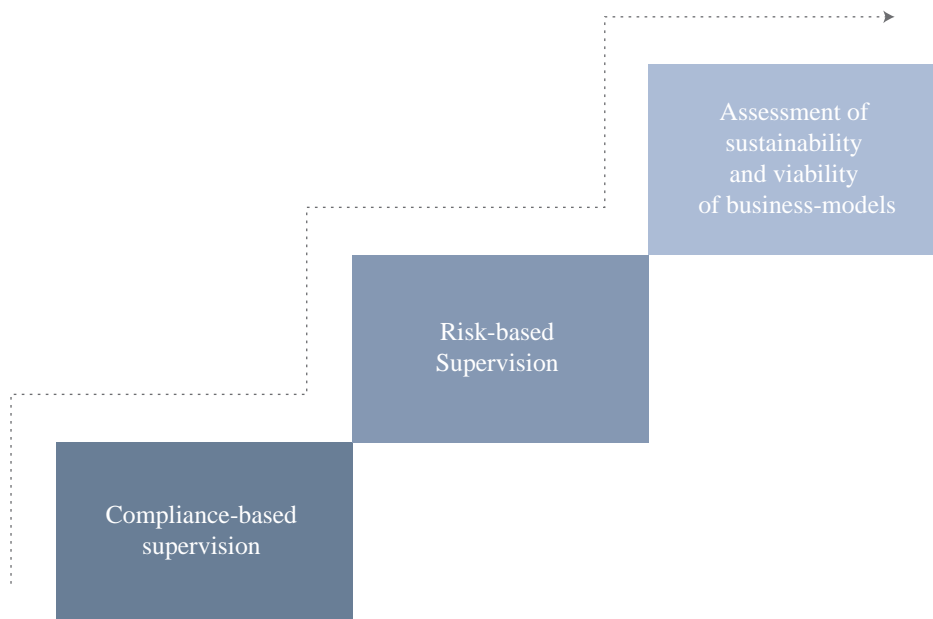
An important component of the CRA system is the assessment of a bank’s business-model. The business-model is the aggregation of means and methods, which are used by the bank to perform its main activities, to obtain profit, and for further development. A business-model is a combination of multiple interrelated components (ownership structure, organizational structure, sales channels, customer base, product series, main business areas, structure of income, expenses, etc.). For the purposes of banking supervision, the business-model is an important instrument that ensures understanding of risks inherent to this model as well as enables evaluation of the contribution of the bank’s individual risks to systemic risk and to define necessary supervisory actions and/or mitigation measures.

Banking experience has shown, for instance, the inefficiency of universal business-models

oriented to a broader spectrum of customers (sectors of the economy), as well as business-models, which were based on servicing of the bank’s related parties. These are exactly recognized to be inefficient business-models, which can pose a systemic risk to financial stability; therefore, banking supervision should proactively introduce measures aimed at curbing excessive risks connected with inefficient business-models.

So, a new supervisory paradigm is being set up that provides for identification and regular revision of business-models, monitoring their changes, assessing the level of compliance of models with changes in business environment, which will also allow the NBU to transit in perspective to a strategy of proactive supervision, oriented to detection of problems in bank’s activities at early stages of their appearance, and timely responsiveness.

Evolution of banking supervision (each next step – new instruments/principles)



By this time, banking supervision relied on aggregation of banks based only on the amount of their assets. In 2015, the NBU made the first steps in implementation of new approaches to aggregation of banks on the basis of the results of assessment of business-models. As a consequence of the work made to improve supervisory procedures, banks are divided into the following groups: banks with state share, banks of foreign banking groups, Group I banks, and Group II banks.

Moreover, on the basis of business-model analysis, the systemically-important banks are determined (NBU Board Resolution No. 863 *On Approval of the Regulation on the Procedure for Determining Systemically-Important Banks*, of 1 January 2015).

According to the measures envisaged in the Memorandum of Economic and Financial Policies in the framework of the IMF's EFF, a diagnostic study of the 20 largest (by assets dimension) banks is performed. To carry out the said diagnostic study, NBU Board Resolution No. 260

On the Diagnostic Study of Banks of 15 April 2015 allows the following:

- Terms of Reference, which provides for asset quality review, regulatory capital adequacy assessment, and core capital evaluation, as well as determination of necessary volumes of additional capitalization of banks for the period until the end of 2017;
- Regulations on the Coordination Committee for monitoring and control over the diagnostic study of banks;
- Schedule of bringing the regulatory capital adequacy ratio (H2) and the core capital adequacy ratio into compliance with requirements of NBU regulatory acts;
- Requirements for developing programs of capitalization/restructuring plan of banks (the standardized format).

To identify inefficient business-models, which are based on banks' related-parties transactions, the NBU:

- Improved the identification of banks' related parties (NBU Board Resolution No. 315 of 12 May 2015 *On Approval of the Regulation on Definition of Bank Related Parties*), by which the form and deadlines is established for banks to submit a list of related parties to the NBU as well as determined features that can be applied by the NBU during banking supervision to identify individuals and legal entities related to the bank;
- Improved the procedure to define bank's related parties exposures, and introduced requirements for action plans to reduce the volume of related parties transactions (NBU Board Resolution No. 314 of 12 May 2015 *On Measures for Banks to Bring the Volume of Active Related Parties Exposure into Compliance with Regulations* (hereinafter – Resolution No. 314);
- to enhance the efficiency of supervision, Resolution No. 312 implemented a new calculation of the maximum credit risk exposure under bank related parties transactions (H9), limiting related parties transactions.

In addition, to strengthen the responsibility of owners for the insolvency of a bank, in case of their improper actions, the Verkhovna Rada of Ukraine adopted the legislative amendments (the Law of Ukraine No. 218 of 2 March 2015 *On Amendments to Certain Legislative Acts of Ukraine Regarding the Responsibility of Bank Related Parties*), which increased the powers of the NBU in terms of demanding from banks to identify and reduce excessive risk concentrations, arising as a result of lending to related parties.

In pursuance of the provisions of the mentioned Law, the NBU has also approved:

- A regulation on the procedure to submit information about the ownership structure of a bank (NBU Board Resolution No. 328 of 21 May 2015), containing new requirements for the disclosure of the ownership structure of banks. This made it possible to reveal the ownership structure of banks to the level of ultimate

beneficial owners. Development of clear criteria for determination of real owners of banks, hard work of the NBU, and application of enforcement actions for not bringing the ownership structure in line with the requirements as to its transparency have made it possible to reveal the true controllers of the majority of Ukrainian banks. During the year, 15 banks out of 67, the ownership structure of which caused doubts of the NBU, were declared insolvent, and 20 banks brought their ownership structure in line with requirements of the NBU;

- Amendments to the Regulation on the procedure for registering and licensing banks and opening standalone divisions (NBU Board Resolution No. 357 of 4 June 2015), which improved approaches to the NBU approval procedure for acquiring qualifying holding by legal entities and individuals, their business reputation, and financial standing, as well as final key participants in the ownership structure of the bank. While approving the acquisition of a qualifying holding, the NBU, in the first place, analyzes the financial standing of a future ultimate beneficial owner of the bank with regard to holding him by his own funds in proportion to the share of the bank's regulatory capital, as well as the source of such funds. The amendments also significantly strengthened the requirements for the business reputation of bankers: a prohibition was introduced for acquisition of a qualifying holding in a bank and holding of managerial positions by persons who were owners of insolvent and liquidated banks. In addition, the NBU gained the right to recognize a person as owner of a qualifying holding irrespective of whether documents were submitted by it. Meanwhile, the NBU simplified the requirements for specific categories of investors (international financial institutions, public companies, legal entities with investment grade credit rating) and mitigated some procedure requirements.

As a result of these actions, as of 1 January 2016, related parties of 20 banks were identified.

The work performed gives reasons to believe that further actions of banks will be aimed

at reorientation of their business-models to effective and market ones with a higher level of specialization, and the balances of banks will be cleared from positions not associated with priority activities that, in its turn, will encourage further development of banks.

For banks that decided to change their models by merging or joining, the NBU initiated changes in the process of reorganization of banks by the NBU Board Resolution No. 788 of 16 November 2015 *On Approval of Amendments to the Regulations on Peculiarities of Reorganization of the Bank Upon Decision of Its Owners*. The document shortened terms for registration procedures in a bank reorganization and approved a simplified procedure for reorganization of banks that need additional capitalization.

Inspections of banks

One of the important forms of banking supervision remained the inspections of banks that were carried out in accordance with the Plan of Banks' Inspections for 2015 and out-of-schedule, if there were reasonable grounds, according to the instructions of NBU authorized officials.

Over 2015, the organization and performance of banks' inspections were being centralized, as part of transformation of functions of the NBU. In particular, since the second quarter of 2015, specialists of the Central Office have been performing off-site supervision over banks of all groups, regardless the place of their registration.

The assessment of banks' activities under CAMELS rating system took place during the scheduled inspections.

Also, over the year there were out-of-schedule inspections in the following areas:

- performance by banks of financial recovery programs and obligations under loan agreements with the NBU, quality of pledge, provided as collateral for loans of refinancing, and stabilization loans⁵;
- exercising of diagnostic studies of banks in order to determine necessary volumes of their additional capitalization;
- on specific issues of compliance with capital ratios, quality of assets, and liquidity;
- quality of management system of information security of the bank;
- on issues of realization of the financial recovery plan;
- compliance of banks with banking legislation concerning information of borrowers about lending conditions and total value of credits.

Moreover, according to appeals of the DGF, three inspections of insolvent/transitional banks were held with regard to assessment of bringing activities of such banks into compliance by investors with requirements of banking laws with regard to capital and liquidity ratios.

Overall, throughout 2015, NBU inspectors carried out 166 inspections of 73 banks' legal entities and 13 of their standalone divisions.

Including:



59 scheduled inspections



59 unscheduled inspections



21 inspections within the framework of the bank diagnostic study



57 inspections of collateral items (real estate) pledged against loans extended by the NBU

5. Periodic inspections that took place in accordance with the requirements of para. 4 of the NBU Board Resolution No. 327 of 13 July 2012 and para. 5.2 of the regulation on granting stabilization loans to banks of Ukraine approved by NBU Board Resolution No. 327 of 13 July 2012.

Significant NBU resources are aimed at inspections on quality asset reviews within the first stage of diagnostics.

In 2015, a new approach was implemented in relation to assessment of violations and drawbacks in the work of banks, formation of recommendations, and evaluation of their performance by banks.

In particular, four levels of materiality of violations/drawbacks were defined in the work of banks, which directly determines the priority in performance of recommendations provided as the results of inspections. The growth of inspectors' professionalism and updated approaches to inspections contributed to improvements in quality and specification of recommendations, thus allowing banks to address drawbacks and violations effectively.

Also in 2015, according to improved NBU corporate standards, qualitative changes in the structure and the content of the Inspection Report and Inspection Note were introduced.

The improved methods, based on consideration of a risk-based approach, were applied when drafting the schedule of banks' inspections and their institutions for 2016. Further, risk-based approaches to planning the inspection itself are expected to be implemented by inclusion of issues into the program that have the most substantial risks inherent to the inspection item.

In the context of improving the instruments of inspections in 2015, the process of expanding the use of working inspection papers in electronic form began. Along with improvement of opportunities to preserve the integrity of electronic archives of documents (provided by banks and created in the process of inspection), the above noted will allow a reduction in the volumes of paper archives as well as simplify the process of analytical processing and access to archives of documents.

Based on results of the assessment of the external audit quality of banks' financial reporting performed during

banks' inspections, 7 letters with comments were sent to 5 auditing companies.

As a result of inspections, banks were provided with the following recommendations:

- to form additional provisions for asset-side operations – by UAH 37.3 billion;
- to increase capital – by UAH 12.7 billion;
- to replace collateral under loans granted by the NBU – by UAH 64.9 million.

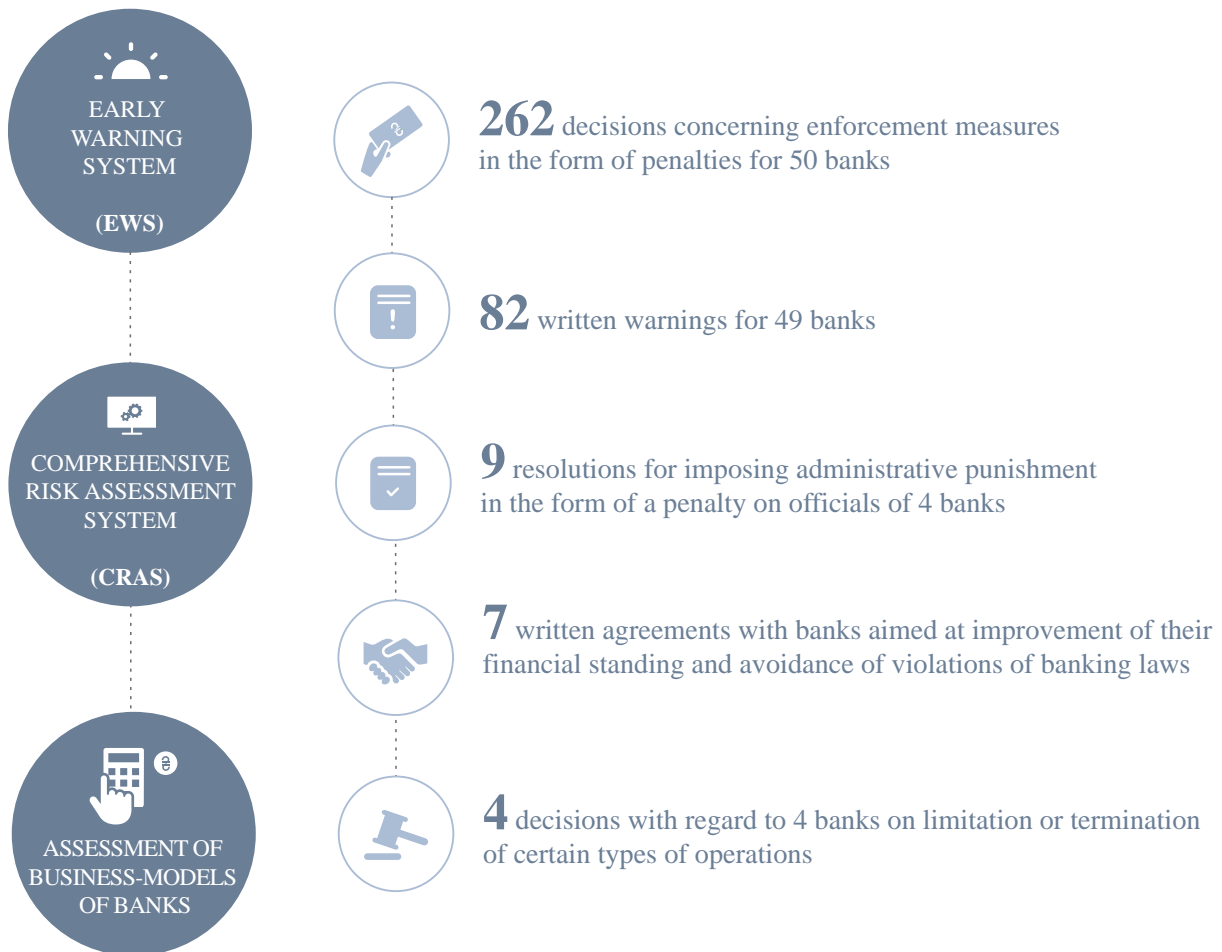
In addition, with respect to banks' enforcement, measures were applied adequately to revealed violations, in particular: written warnings, conclusion of written agreements, and imposing penalties on banks.

The main reasons for imposing penalties on banks, as a result of inspections, were the following facts:

- non-compliance with requirements of statutory acts on regulation of banks' activities;
- submission to the NBU of false and/or incomplete reporting;
- violations by banks of regulatory requirements of the NBU concerning rules to provide the consumer with information about lending conditions, total value of credit, and instructions for preservation, protection, use, and disclosure of bank secrecy;
- failure to comply with obligations under loan agreements entered into with the NBU.

Over 2015, within the interaction of the off-site banking supervision with law enforcement bodies, respective notifications have been sent to special organized crime investigation divisions of the Ministry of Internal Affairs and Security Service of Ukraine in accordance with Article 18 of the Law of Ukraine *On the Organizational and Legal Framework for Combating Organized Crime*. In compliance with 33 court orders, the materials to execute seizures across banking institutions have been prepared.

Enforcement measures for banks based on results of inspections



Improvement of audit services quality

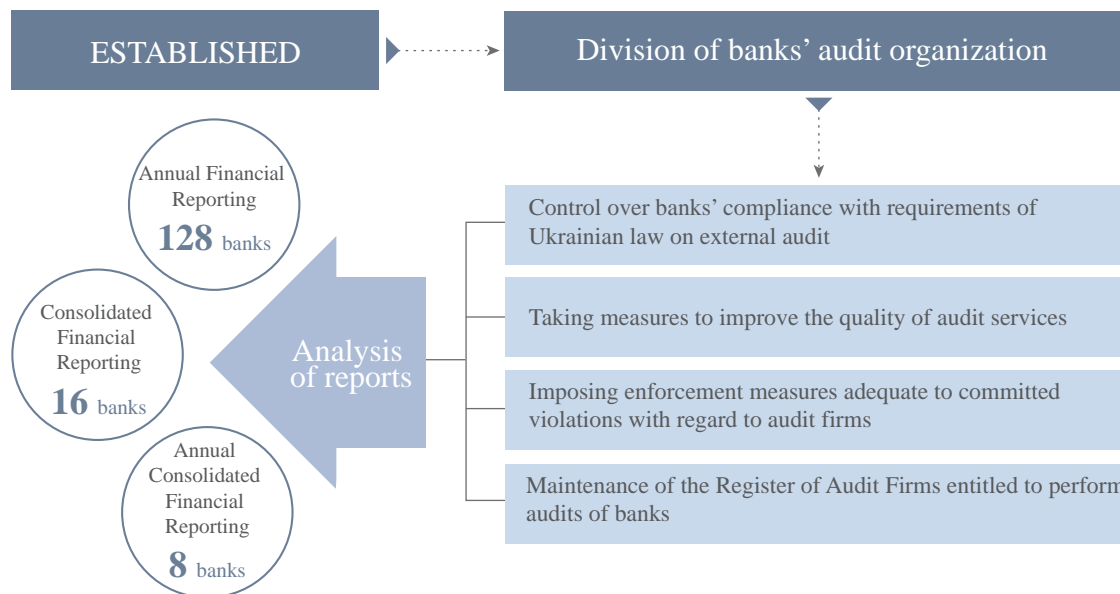
To improve the quality of audit services in the structure of the Banking Supervision Department of the NBU in 2015, the division of banks' audit organization was established, the main functions of which are control over banks' compliance with requirements of the legislation of Ukraine on external audits, maintenance of the register of auditing companies entitled to perform audits of banks (hereinafter the Register of Audit Firms), and to take measures to improve the quality of audit services.

Due to established violations by audit companies of requirements of the legislation of Ukraine and

NBU regulatory acts, the Committee for Audit of Ukrainian banks excluded eight auditing companies from the Register of Audit Firms by its resolution. In addition, one auditing company was excluded from the Register of Audit Firms due to non-compliance of its activities with requirements of NBU regulatory acts.

Also, due to the detection of facts of failures to inform the NBU about changes in documents submitted for entry in the Register of Audit Firms during 2015, 11 audit firms had enforcement measures imposed, such as a warning of possible exclusion from the Register of Audit Firms.

Activities of division of banks' audit organization



The requirements to the NBU to the quality of audit companies' reports were brought to the attention of audit companies.

In 2015, several meetings with audit companies were held in the following manner:

- top officials of the NBU participated in a meeting with leaders of audit companies included into the Register. Participants discussed the issues of improvement of the quality of audit services, strengthening control of the regulator over banks in terms of changing approaches to banks' supervision, as well as transition to IFRS and new requirements to credit risk assessment;
- during the "Big 8" event, the Head of the Banking Supervision Department took part at a meeting with leaders of audit companies, where participants discussed issues concerning preparation by banks of annual financial reporting for 2015, as well as problems and risks that arise during audits.

Being aware of the importance of establishing effective cooperation between regulators and participants of the banking sector, the NBU

maintained an ongoing dialogue with banks to explain the changes in regulatory acts as for banking supervision in 2015. Over the year, a series of additional meetings were held with representatives of auditing companies on the improvement of NBU regulatory acts governing audit activities in Ukraine.

Activities of non-banking financial institutions

The NBU Board Resolution No. 962 of 29 December 2015 *On Additional Requirements for Non-Banking Financial Institutions and the National Mail Service Operator, Which Gained (or Gain) the Right to Perform FX Transactions* approved amendments to the regulation on providing non-banking financial institutions and the national mail service operator with general licenses for currency transactions, approved by NBU Board Resolution No. 297 of 9 August 2002 (as amended). This Resolution raised qualification requirements for non-banking financial institutions engaged in currency transactions or applying to the NBU for a general license, in particular, and raised the minimum equity capital requirements for activities with foreign exchange,

as well as determined the obligation when obtaining a general license and, subsequently, to annually provide information about the ownership structure and owners of a qualifying holding.

AML/CFT compliance with FX legislation of Ukraine

The NBU has acted in accordance with the Action Plan for 2015 on prevention and counteraction to legalization (laundering) of proceeds from crime, terrorism financing, as well as financing of proliferation of weapons of mass destruction, approved by NBU and Cabinet of Ministers of Ukraine Resolution No. 99 of 11 March 2015.

In the accounting year, pursuant to relevant legislative requirements, the NBU developed and approved a regulation on financial monitoring by banks, approved the NBU Board Resolution *On Applying Sanctions to Non-Banking Financial Institutions* as well as introduced amendments to other NBU regulatory acts on prevention and counteraction to legalization of criminal proceeds/terrorism financing.

To implement the approach based on risk management as well as in order to assess the risks of using banks' services for legalization of criminal proceeds/terrorism financing, two new forms of banks' statistical reporting on these issues were introduced.

In 2015, the NBU closely cooperated with the State Financial Monitoring Service of Ukraine, including on preparation for the plenary meetings of the Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering and Terrorism Financing (MONEYVAL). The NBU representative took part in the 49th meeting of MONEYVAL as a member of the government delegation of Ukraine.

Pursuant to the Memorandum with the IMF, the NBU implemented the latest international standards for risk-based supervisory instruments in the area of prevention and counteraction to legalization of criminal proceeds/terrorism financing.

Throughout 2015, the specialists of the NBU carried out 76 on-site inspections of banking and non-

banking financial institutions (56 scheduled and 20 unscheduled) in terms of their compliance with requirements of the relevant legislation as well as compiled 16 acts of off-site supervision.

Following the results of revealed violations, enforcement measures/sanctions were applied (adequately to violations or the level of threat for creditors and depositors of the bank), including in form of penalties, written warnings, and categorizing the banks as troubled/insolvent, as well as revocation of banking licenses and liquidation of banks.

It should be noted that the Supreme Administrative Court of Ukraine made decisions in favor of the NBU in two cases concerning qualification of banks as insolvent for risk-bearing activities in the field of financial monitoring and systematic violations of this legislation.

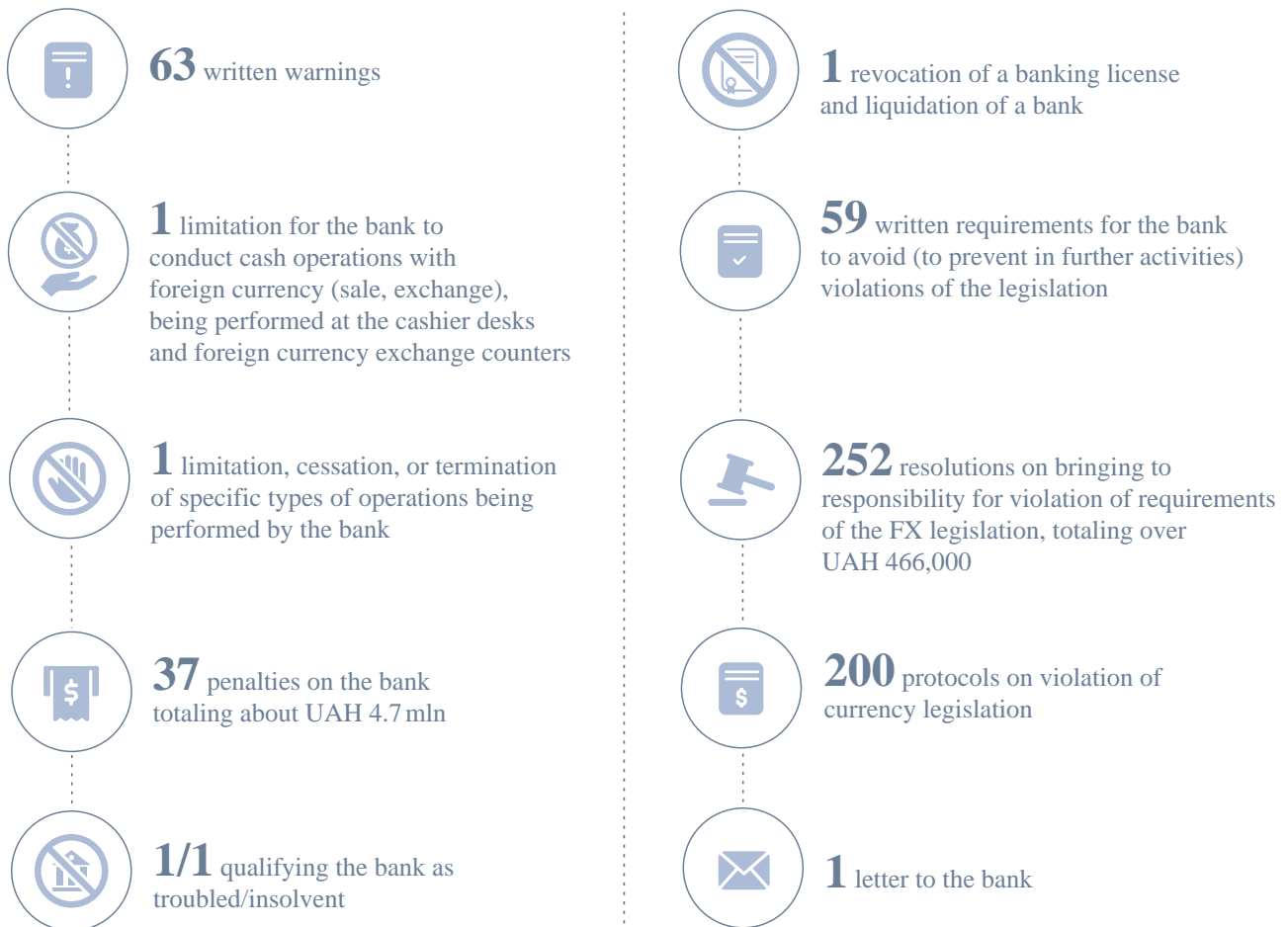
In 2015, under Article 18 of the Law of Ukraine *On Organizational and Legal Framework for Combating Organized Crime*, the NBU transferred information to law enforcement bodies about bank customers' financial transactions, amounting to more than UAH 81 billion, USD 429 million, EUR 213 million, and RUR 4.6 billion, that were revealed during inspections of banks on financial monitoring.

In 2015, the NBU carried out 1,185 inspections concerning compliance with FX legislation of Ukraine, including 63 office audits and 921 cash inspections of authorized banks and financial institutions, as well as their subdivisions.

More than 150 sets of inspection materials and other information, obtained from government authorities of exchange control and law enforcement bodies for compliance with the laws of Ukraine during currency operations by banks and financial institutions, were considered.

Following the results of revealed violations, enforcement measures/sanctions were applied, including those in the form of protocols on violation of currency legislation, penalties, written warnings, and limitations for the bank to conduct cash operations with foreign currency (sale, exchange) being performed at the cashier desks and foreign currency exchange counters.

Application of enforcement measures/sanctions for violations of financial monitoring and FX control legislation



Given the difficult economic and socio-political situation in the country that had a significant negative impact on the foreign exchange market of Ukraine, the NBU implemented appropriate anti-crisis measures during 2015 to prevent unfair practices in conducting currency operations by authorized banks and their clients, in particular, purchase of foreign currency under fictitious agreements that are intended to use funds for an illegal purpose.

Inter alia, over 250,000 applications for purchase of foreign currency/payment orders in foreign currency have been processed.

Throughout 2015, the NBU exercised control over the import of investment metals and foreign currency cash, the export of foreign currency cash to replenish correspondent accounts abroad, meeting the requirements of individual licenses for the right to use cash foreign currency as a means of payment on the territory of Ukraine, and meeting

the requirements of individual licenses for placement of currency values on accounts outside Ukraine, as well as sending letters to authorities of the State Fiscal Service and law enforcement bodies in the order of interaction. Other measures were being taken to ensure currency control, issuance of references, and more.

The NBU continually held training seminars with representatives of banks of Ukraine on the following

subjects: *Relevant Issues of Financial Monitoring Organization in Banks, Particularities of Financial Monitoring in Banks, and Relevant Issues of Banks' Financial Monitoring and FX Control*, as well as training seminars for NBU employees. A seminar for banks on *Relevant Issues of Work with PEPs* was organized and held with the participation of IMF experts.

NBU activities on registration, licensing, and reorganization of banks



189 changes to Charters of banks are approved



23 banking licenses are issued



169 decisions with regard to qualifying holding



26 246 records are added to record-keeping systems



11 complex actions in relation to banking groups



453 publications of banks' ownership structures on pages of the NBU website



764 approvals of banks' managers

Licensing of FX operations

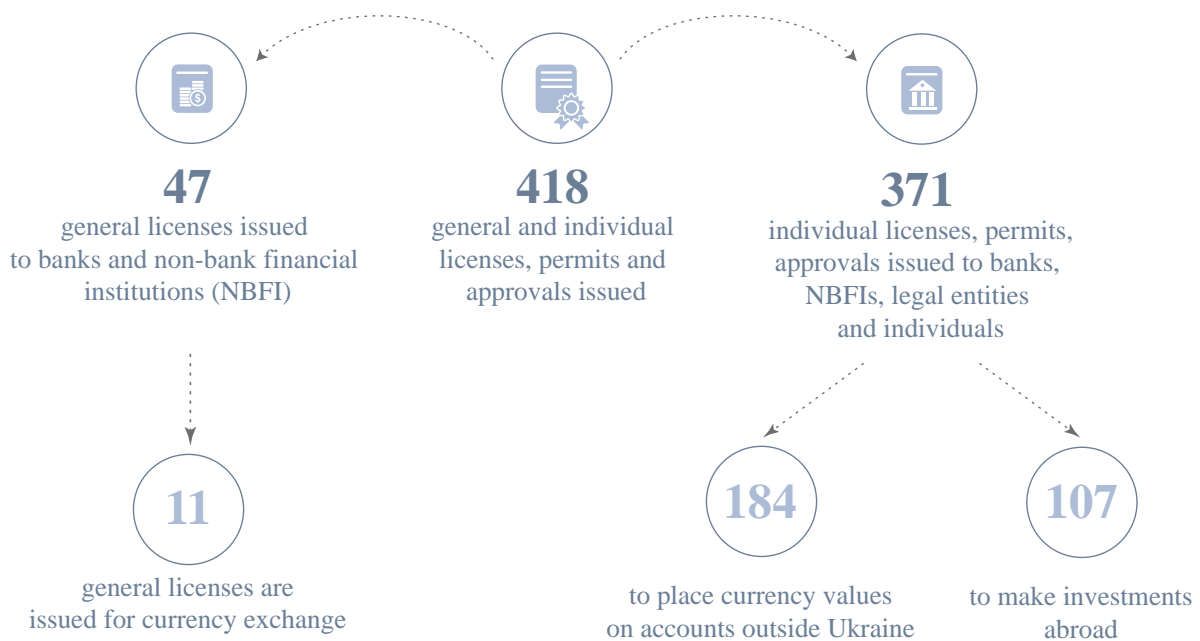
During 2015, the NBU Central Office issued banks, non-banking financial institutions, legal entities, and individuals a total of 418 individual licenses, general licenses, and special permits to conduct operations with currency valuables, including:

- to banks – 14 general licenses and 9 individual licenses for operations with currency valuables, namely:

- to non-banking financial institutions, legal entities and individuals – 395 individual licenses, general licenses, and special permits for operations with currency valuables.

Along with this, throughout 2015, 163 amendments to individual licenses were made, 32 individual licenses were cancelled, and 2 general licenses to conduct currency operations by banks along with 19 general licenses to conduct currency operations by non-banking financial institutions were revoked.

Licensing of FX operations





Next steps:

- Completing the cleanup of the banking sector of Ukraine.
- Ensuring the required level of banking sector capitalization. Banks are requested to bring their capital to a minimum of UAH 120 million before mid-2016.
- Approving plans of capital increases for the top twenty banks and completing diagnostics of banks.
- Implementing a new approach to credit risk assessment in line with international standards.
- Completing the process towards disclosure of ultimate beneficial owners of banks;
- Completing the full diagnostics of the loans to related parties across the entire banking system.
- Moving to in-depth systemic analysis of business-models of bank functioning in accordance with recommendations of the European Banking Authority;
- Completing the reform of the prudential supervision function to facilitate further increase of the efficiency and reliability of the banking system.

PAYMENT SYSTEMS AND SETTLEMENTS



YAKIV SMOLII
Deputy Governor of the National
Bank of Ukraine



Cashless economy project implementation resides not only in the reduction of cash circulation, but primarily in the reduction of cash circulation in the shadow economy, an increase in the tax base, and banks accumulating investment resources.

Development of the cashless segment is a strategic goal of the NBU. To that end, we should strengthen people's confidence in the national currency as well as in banks. This is what the NBU has been working on the entire reporting year. Together with the Ministry of Finance, Ministry of Economic Development, and State Fiscal Service, we are working on cash circulation reduction and implementation of electronic settlements.

In 2015, we clearly defined our policy up to 2020. It will be aimed at further development of the payment market to build the cashless economy. Next year we will start implementing the cashless economy project. In order to widen the area of cashless settlements, we support implementation of a wide range of modern technology solutions and creation of a favorable legal environment for efficient and secure operation of payment systems in Ukraine.

One of the highly important achievements of 2015 was the outcome of development and expansion of the scope of the national payment system, which is now called the Ukrainian Payment Area (PROSTIR). We are now working hard on implementation of new technologies and operations within the PROSTIR payment system: enhancing security of e-commerce transactions, introduction of money transfer transactions between cards, introduction of cloud and mobile technologies of contactless payments, securing the wide use of PROSTIR contactless cards in the retail point-of-sale network, and transport infrastructure. Implementation of innovative solutions and development of the national payment system constitute a way to strengthen Ukraine's independence from transnational corporations in the payment area and to reduce public expenses on payment services.

The NBU's aspiration for European quality standards in provision of payment services is irreversible. It helps us to increase transparency in services and to protect our citizens. Cashless economy project implementation resides not only in the reduction of cash circulation, but primarily in the reduction of cash circulation in the shadow economy, an increase in the tax base, and banks accumulating investment resources necessary to restore economic growth and to satisfy the population's needs.

Cash Circulation

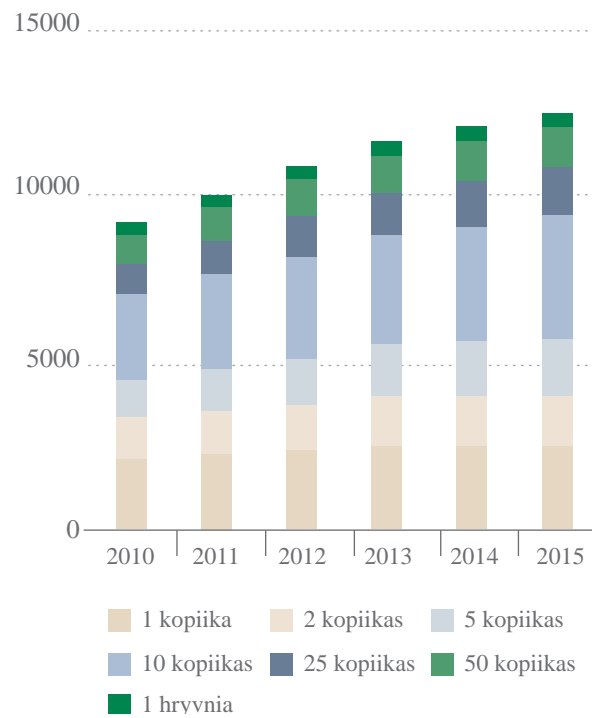
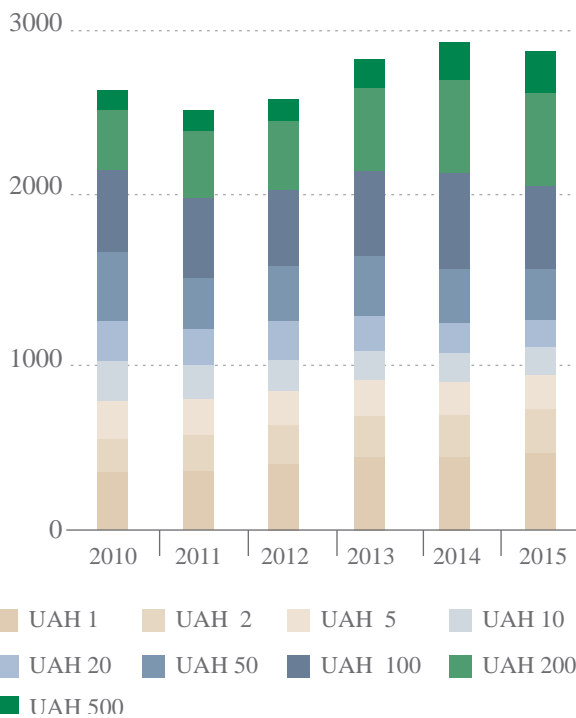
» During the reporting year, the economy was supplied with notes and coins of all denominations in the required and sufficient amount. Smooth cash handling was ensured during the transformation of the NBU regional offices. The first banknote of the new generation, UAH 100, was added to the Ukrainian banknote family. The NBU put into circulation 37 commemorative coins. State Enterprise Polygraph Combine “Ukraina” launched production of security documents with embedded contactless electronic media.

As of the beginning of 2016, there were banknotes and coins in circulation for a total amount of UAH 308.3 billion, which is UAH 3.4 billion or 1.1% more than at the beginning of 2015 (at the beginning of 2015 – UAH 304.9 billion, which is UAH 43.0 billion or 16.4% more than at the beginning of 2014).

Circulating were 2.8 billion notes in the amount of UAH 306.3 billion, 12.1 billion small and circulating coins in the amount of UAH 1.9 billion, and 10.2 million commemorative and investment coins in the amount approximately UAH 53.0 million. In 2015, the number of banknotes in

Number of banknotes in circulation, by denominations (at the beginning of the year), million pcs.

Number of coins in circulation, by denominations (at the beginning of the year), million pcs.



circulation decreased by 67.7 million pieces, and the number of coins increased by 401.5 million pieces.

Throughout 2015, the total amount of cash distributed to banks was UAH 132.5 billion, including: the amount for pension payment via communication enterprises at reduced tariffs – UAH 69.7 billion, which is over 52% of the total amount of distributed cash. The total amount of cash distributed at reduced tariffs comprised UAH 115.4 billion, which is almost 87% of the total distributed amount. In 2015 the revenue of the NBU from cash servicing of banks was UAH 172.14 million (in 2014 – UAH 164.27 million).

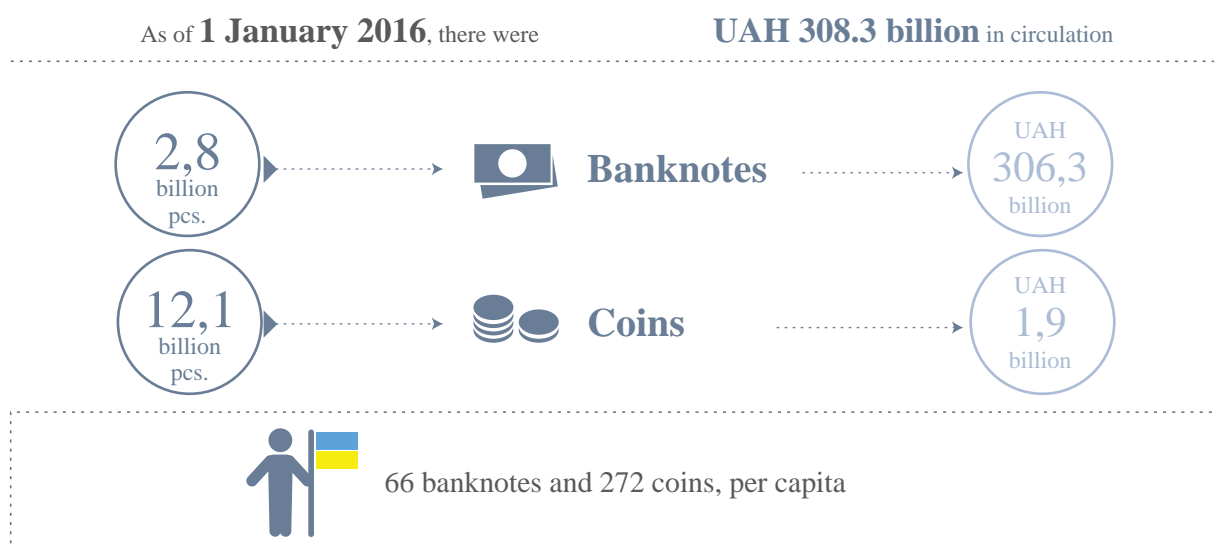
In order to ensure bank servicing in the territory of Donetsk and Luhansk Oblasts under control of the Ukrainian government, the cash was distributed via cash circulation divisions in the Zaporizhia, Dnipropetrovsk, and Kharkiv Oblasts. In 2015, cash distributed to banks in this region totaled to UAH 8.6 billion and ensured payment of pensions, salaries and social payments.

Operations with cash on the territory of the Autonomous Republic of Crimea ceased from 8 May 2014, and the cash vaults of the NBU

Main Office in the AR Crimea were sealed. At the same time, January through June 2015, the NBU performed transportation of banknotes and coins to mainland Ukraine in the amount of UAH 3.8 billion, souvenir products in the amount of UAH 0.8 million, other valuables (specimen of hryvnia banknotes, etc.) in the amount of UAH 1.1 million, precious metals in the amount of UAH 1.0 million, and other items (vehicles, machines, and equipment, including two BPS1040S automated banknote processing systems) in the amount of UAH 32.2 million.

In order to improve the organization of cash circulation, the NBU worked on optimization of the series of banknotes and coins. In accordance with NBU Board Resolution No. 224/8t *On the Development of Hryvnia Banknotes of New Design* (as amended) of 8 November 2011, a new 100 hryvnia banknote was put into circulation on 9 March 2015. At the end of December last year, the NBU presented a new 2015 design of 500 hryvnia banknote and announced putting it into circulation on 11 April 2016. The upgrade of Ukrainian banknote series designed in 2003 – 2007 started with these two notes of the new generation.

Cash circulation in Ukraine



Hryvnia banknote series



Hryvnia banknotes, 2014 design UAH 100 banknote and a 2015 design UAH 500 banknote



Cash in Banks

As of 1 January 2016, the volume of cash outside banks decreased by UAH 0.3 billion, or by 0.1% and comprised UAH 282.7 billion, as compared to 2014, with UAH 45.2 billion or a 19.0% when an increase was observed.

Throughout 2015, the money supply increased by UAH 37.3 billion or by 3.9 % up to UAH 994.1 billion as of 1 January 2016 (for 2014 – by UAH 47.7 billion or by 5.3%).

The share of cash outside banks in the money supply decreased over 2015 by 1.1 percentage points to 28.4%.

The balance of cash in banks at the beginning of the year increased as compared to the corresponding period of the previous year by UAH 3.7 billion, or by 16.9%, and comprised UAH 25.6 billion.

Cash Processing and Withdrawal of Banknotes Unfit for Circulation

In 2015, almost 2.6 billion banknotes were received for processing by regional cash circulation divisions and the Central Vault, including from banks – 1.9 billion banknotes, which is 0.4 billion banknotes less compared to 2014. The decrease was mainly due to the shutdown of NBU offices in Donetsk and Luhansk Oblasts.

A total of 2.6 billion banknotes was processed during the reporting year (which is at the level of 2014), including 2.4 billion pieces through automated banknote processing systems. Almost 0.5 billion

banknotes were destroyed in the automated systems. During the year, 928.3 million worn-out banknotes equaling to UAH 41.5 billion were withdrawn from the circulation.

Withdrawal of Counterfeit Banknotes from Circulation

In 2015, over 7,000 domestic currency banknotes (UAH 1.2 million) were found by the NBU experts to be counterfeit and withdrawn, which is 5% less pieces and 51% more in value than last year. Among the counterfeit banknotes withdrawn from circulation, denominations of UAH 50 (2,392 pcs.), UAH 100 (1,452 pcs.), UAH 200 (1,983 pcs.) and UAH 500 (1,031 pcs.) were the most common. By 2015 results, 2.7 counterfeit banknotes were found per 1 million original hryvnia banknotes (versus 3 in 2014).

Additionally, foreign currency banknotes were recognized as counterfeit and withdrawn from circulation:

US dollars – 456 pcs. (in 2014 – 357 pcs.), among which 100 US dollar banknotes were most common (93% of the total quantity of counterfeit US dollars withdrawn);

euro – 239 pcs. (in 2014 – 323 pcs.), EUR 100 and 200 banknotes prevailed (54% and 31%, respectively, from the total amount of counterfeit euro banknotes withdrawn);

russian rubles – 80 pcs. (in 2014 – 106 pcs.), RUB 5,000 banknote was most common (84% from the total amount of counterfeit rubles withdrawn).

Issuance and Distribution of Commemorative and Bullion Coins of Ukraine

According to the Plan for Production of Commemorative and Bullion Coins of Ukraine and Souvenir Products in 2015, 37 commemorative coins (32 titles) were issued, including 14 silver coins, 22 nickel silver coins, and 1 bimetal coin, with a total mintage of almost a million pieces (991,000).

The NBU issued commemorative coins that mark significant events and personalities, such as the Day of Defender of Ukraine, the Heroes of Maidan, the millennium from the date of repose of Volodymyr the Great, Grand Duke of Kyiv, the 400 years of one of the oldest universities of Ukraine, the National University of Kyiv-Mohyla Academy, the 200th birthday anniversary of Mykhailo Verbytskyi, the 150th anniversary of Metropolitan Andrei Sheptytskyi, the 420th birthday anniversary of Bohdan Khmelnytskyi, and others.

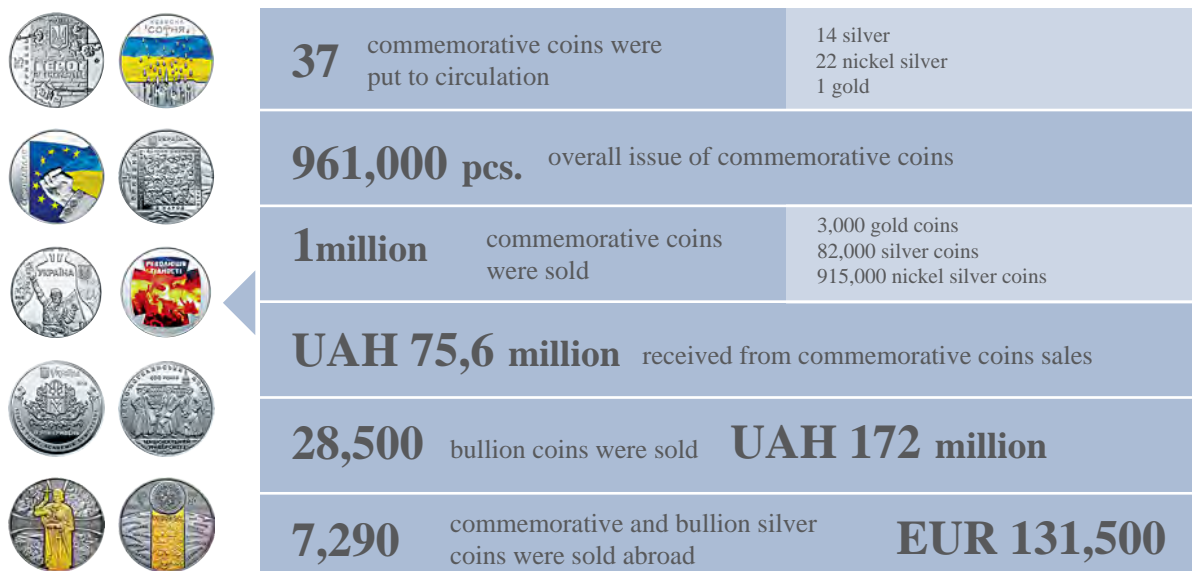
In 2015, the NBU distributed almost 1 million of commemorative coins in the total amount of UAH 75.6 million, including gold coins – 3,000, silver coins – 82,000, nickel silver coins – 915,000. Also, almost 29,000 bullion coins equaling to UAH 172.2 million, including gold coins – 17,000, and silver coins – 12,000, were sold.

The expected yield from commemorative coins and souvenir products during 2015 was overachieved by 201% and comprised UAH 243.5 million.

The commemorative coins were sold through the NBU cash circulation divisions and distributor banks. In order to improve public access to numismatic products, same business hours were introduced for all the NBU coin and souvenir booths in cash circulation divisions. Information about these booths (phone numbers and contact persons) were posted at the NBU website.

In 2015, 7,290 commemorative and bullion coins in the amount of EUR 131.500 were sold abroad to “World Coin Association” (MDM Group, Germany).

Commemorative and bullion coins of Ukraine in 2015



Operation of the State Enterprise *Polygraph Combine “Ukraina”* for Securities Production

During 2015, the State Enterprise *Polygraph Combine “Ukraina”* which is managed by the NBU, met the needs of public authorities on protection of document templates from forgery, including: securities, tax stamps, passports,

document templates for registration of the results of administrative services, and others.

In order to fulfill the Action Plan regarding liberalization of the visa regime between Ukraine and the European Union, the NBU took measures at *Polygraph Combine “Ukraina”* regarding manufacturing and personalization of ID documents citizenship of Ukraine, or special status, with a contactless electronic media.

NATIONAL BANK OF UKRAINE



PAYMENT LANDSCAPE OF UKRAINE

Payment and Settlement Systems of Ukraine (as of 1 January 2016)			
CREATED BY NBU	“PRIVATE” PAYMENT SYSTEMS		
	Created by the banks of Ukraine	Created by non-banking institutions of Ukraine	Created by non-residents
 	INTERSTATE		
	Interbank payment systems 14	Settlement systems 8	
	Settlement systems 6	Payment systems 2	
		Card payment system 1	
	INTERNATIONAL		
	Settlement systems 2		Settlement systems 14
			Card payment systems 3

* before 20 May 2016, NSMEP (National System of Mass Electronic Payments)



Payment Systems Regulation and Development of Cashless Payments

» *Ensuring development of cashless payments is one of the priorities of the financial market, determined by the Comprehensive Program for Financial Sector Development of Ukraine Until 2020 (Component A9 - Cashless Economy). NBU actions were aimed at expanding the scope of cashless payments and facilitating the implementation of secure and reliable payment systems in Ukraine.*

In particular, the following steps were taken during 2015:

The legal environment for international Internet-payments in Ukraine was established;

Individual entities were provided with an opportunity to receive foreign currency transferred from abroad to current accounts without any restrictions;

Users and merchants were provided with access to the market of international systems of Internet-payments in terms of making/receiving payment for products, works, and services with e-money issued by non-residents;

The procedure for opening accounts by banks for entities was simplified: the number of documents decreased and the principle of silent consent was realized with the notification of controlling bodies regarding account registry;

The procedure for opening of correspondent accounts of banks in the NBU was simplified;

The procedure was developed for recovering without recourse to court of bank's debt to NBU under refinancing loans by debiting from corresponding accounts of debtor bank in other Ukrainian banks;

The procedure for obtaining permit documents at the market of payment services was simplified and the procedure for processing those documents by the NBU was optimized;

The NBU was granted the right to suspend the validity of licenses for non-bank financial institutions for the period of one year in terms of funds transfer in national currency without opening accounts in case of violation of the requirements of Ukrainian law on money transfers;

The procedure for assessment of payments systems, on-site inspections of oversight subjects, and application of enforcement actions thereto were improved.

Development of Payment and Settlement Systems Market

In 2015, 58 payment systems were operating in Ukraine:

- 2 NBU payment systems;
- 34 payment systems created by residents;
- 22 payment systems created by non-residents.

The NBU System of Electronic Payments⁶ (SEP) is a systemically important system in Ukraine. The banks prefer making interbank transfers in the national currency through the SEP to direct payments to correspondent bank accounts.

The SEP ensured 97% of interbank transfers in national currency inside Ukraine. The participants of the SEP performed 298,774,000 initial payments amounting to UAH 17.75 trillion, which by the volume of operations is 24% more than in the previous year. On average, there were

6. The NBU System of Electronic Payments ensures processing inter-bank payments in Ukraine in national currency. The NBU is the payment organization and a settlement acquirer of the SEP.

1,195 initial payments amounting to UAH 71 billion processed daily.

The average daily balance of the SEP accounts amounted to UAH 52.4 billion, and the average turnover rate for accounts of SEP participants was 1.33. The NBU has created all conditions to meet the needs of participants of the SEP in transferring funds by ensuring a high level of safety and reliability for interbank transfers in the national currency through the system.

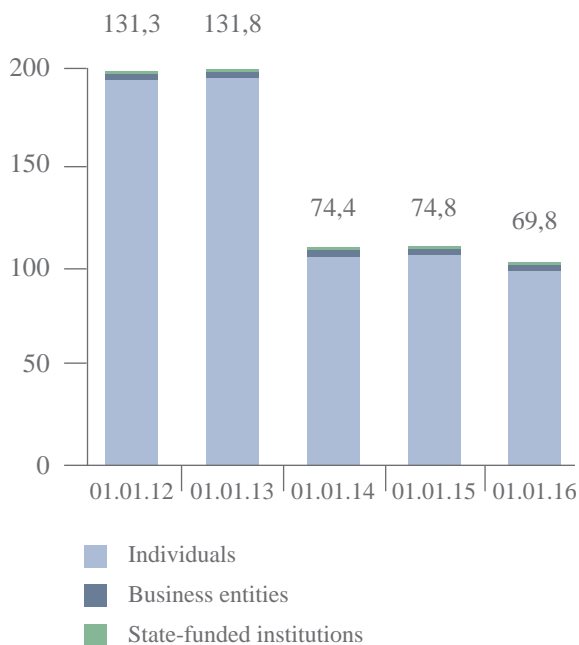
As of 1 January 2016, 120 bank institutions serviced 69.8 million customers – legal entities and individuals (residents and non-residents). The total number of accounts opened by banks for customers as of the reporting date was 112.2 million, including

95.6 million current accounts and 16.6 million deposit accounts.

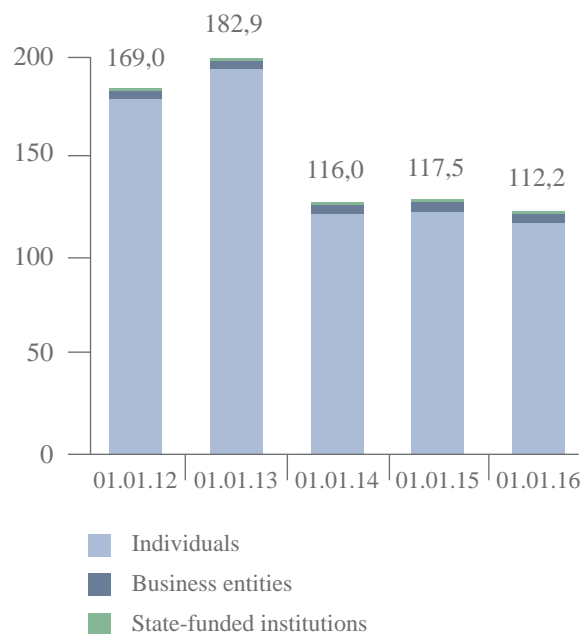
The majority of investors in the Ukrainian economy are still individuals – out of 112 million of accounts opened by the banks of Ukraine as of 1 January 2016, 108 million belong to individuals. Ukraine has 2 bank accounts per citizen⁷.

Despite the difficult economic situation in Ukraine (the shutdown of institutions in the temporarily occupied territory of the Autonomous Republic of Crimea and in Sevastopol and in the area of the anti-terrorist operation in Luhansk and Donetsk Oblasts) the number of banks' business entity customers remains at a level of 2 million.

Number of customers who have accounts in banks of Ukraine, million



Number of accounts of bank customers, million



7. The data of State Service of Statistics of Ukraine as of 1 January 2016 (<http://www.ukrstat.gov.ua/>)

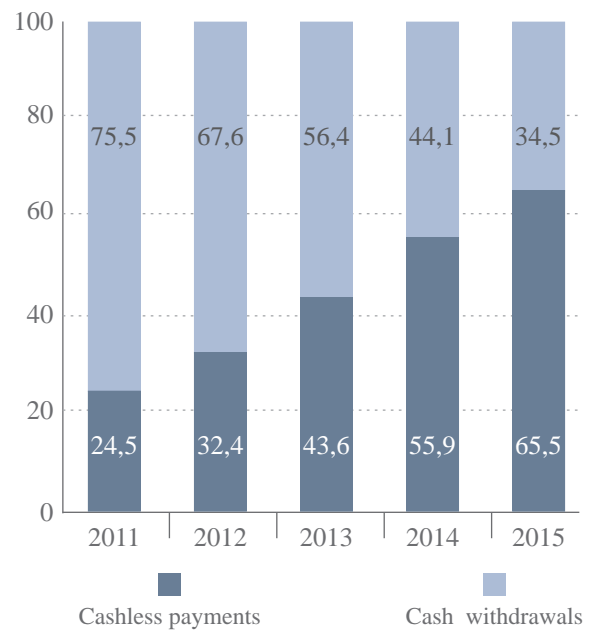
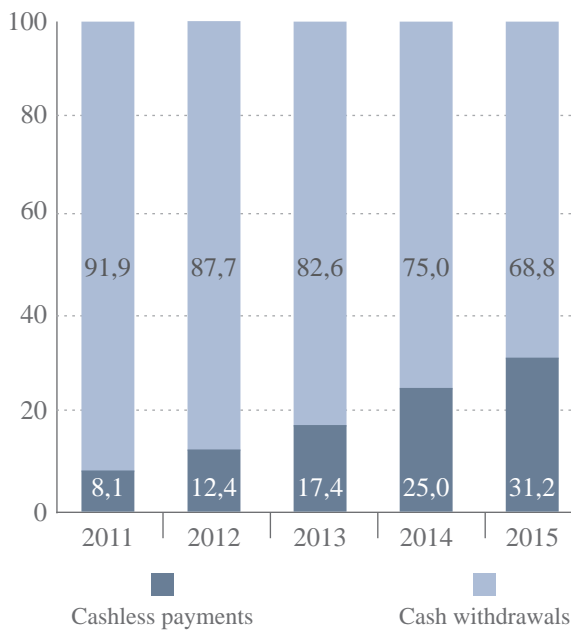


The active development of non-cash payments with cards continued. Thus, during 2015 the volume of transactions made with payment cards issued by Ukrainian banks grew by 21.0% as compared to

2014 and amounted to UAH 1.233 trillion, and the number of transactions with payment cards issued by Ukrainian banks increased by 24.9% up to 1.965 billion transactions.

Value of card transactions, %

Number of card transactions, %



Growing number and value of cashless transactions with payment cards means that cards become increasingly common instrument used for payment and not just cash withdrawals.

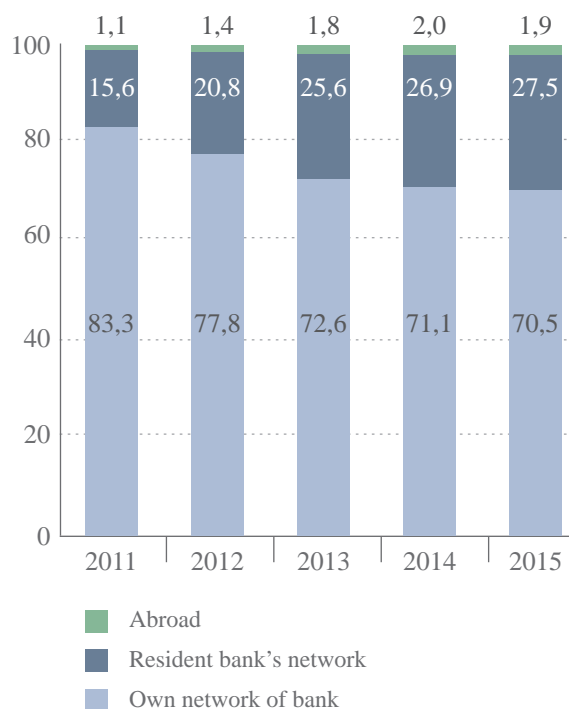
The holders of payment cards issued by Ukrainian banks carried out most of their operations through the network of the issuing bank (70.6%); in the network of other resident banks – 27.5% of

operations; and outside Ukraine only 1.9% of transactions were carried out.

Most transactions with payment cards were made by holders in Ukraine. Among the transactions, the non-cash transactions were most common, indicating a positive trend towards gradual reduction of circulation of cash in the shadow economy and promoting transparency of taxation and GDP growth.



Use of payment cards by processing networks (number of transactions), %



The Internet payments reached the level of 52.7% of the total amount of cashless operations with payment cards and comprised UAH 203 billion.

During 2015 on the territory of Ukraine, 47 systems for money transfers operated. Overall, by means of the money transfer systems created by residents and non-residents, the following amounts were transferred:

In Ukraine – UAH 75.5 billion;

to Ukraine – USD 2.5 billion (in equivalent);

out of Ukraine – USD 0.4 billion (in equivalent).

In 2015, the NBU issued 11 licenses to non-bank financial institutions for money transfers in national currency without opening accounts and registered 7 operators of payment infrastructure services.

Ukraine is a recipient country for transnational transfers. In 2015, the amount of funds received in Ukraine via international money transfer systems created by non-residents was almost six times higher than the amount of the money transferred beyond its borders.

In 2015, the NBU continued to work towards increasing financial literacy among the population.

In order to increase the anti-fraud protection of citizens' operations with payment cards, certain recommendations were developed and placed on the official NBU website page for payment card holders, along with a series of press-releases and other information was published.

Oversight of Payment and Settlement Systems

As part of the oversight function in the area of payment and settlement systems in 2015, the NBU took the following actions:

- a comprehensive assessment of payment systems was introduced, which aims to minimize risks, including reducing the systemic risk and ensuring continuity of payment systems, improving reliability and efficiency, and strengthening financial stability in Ukraine;
- in the second half of 2015, following the results of monitoring and in compliance with the criteria of the importance of payment systems, payment systems were categorized by importance: systemically important, socially important, and

important. The NBU obliged significant payment systems to bring their activity into compliance with the requirements set for them;

- in the fourth quarter of 2015, a complex assessment of the SEP as a systematically important payment system of Ukraine was performed. As per the results of the assessment, the recommendations regarding bringing activities of the SEP in line with the international standards were issued;
- the regulations were approved regarding the inter-state payment systems WebMoney.UA, UKRCARD, UKROP, and FORPOST. The status of the PRAVEX-TELEGRAPH payment system and the “Shvydka Kopyyka” instant transfer system was changed from interbank to intrastate.

Furthermore in 2015, the NBU launched oversight inspections for compliance with the requirements of Ukrainian legislation in terms of the activity of Ukrainian payment systems. As per the results of the inspections made, adequate enforcement measures were taken for violations committed.

Development of the National Payment System “PROSTIR”

During the year under report, the NBU focused on creating payment environment that would promote mass use of payment cards and other electronic means of payment. As part of reforming the payment systems market in 2015, the national payment system was rebranded, which changed the attitude of participants of payment market thereto.

Following steps were taken to promote the National Payment System:

- the system of mass electronic payments was rebranded and a new trademark was created. Currently, the National System of Mass Electronic Payments (hereinafter the NSMEP) changed its name to Ukrainian Payment Area “PROSTIR” (hereinafter “PROSTIR”);
- e-commerce transactions and the opportunity to make contactless payments were introduced;
- in terms of “PROSTIR” activity, actions were taken aimed at termination of non-core functions of the NBU (the NBU salary project was transferred to a commercial bank, the transfer of data storage and collection of payment transactions to the State Fiscal Service was launched); the technology areas of further development for “PROSTIR” include putting into industrial operation contactless payment technology, mobile payments, and cloud technologies as an inherent part of a contemporary payment system .

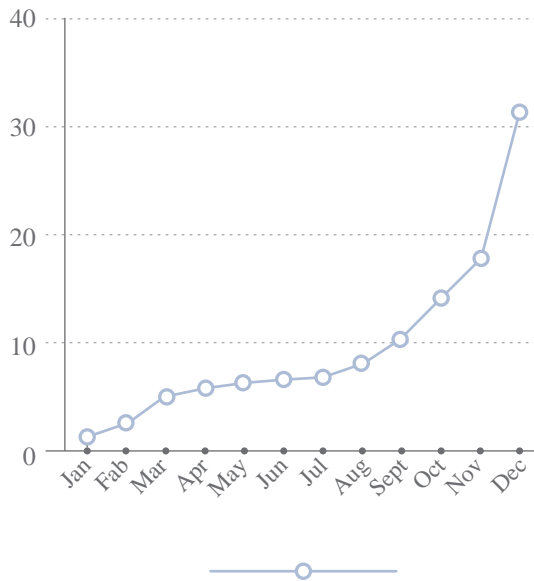
Advantages of “PROSTIR”:

- no need for technical modernization of terminal network of banks for acceptance of “PROSTIR” cards ;
- relatively low number of fee-based services and lower average weighted cost of transaction compared to international payment systems;
- security deposit in domestic currency is lower in a clearing bank of “PROSTIR” than in the international payment systems;
- a simplified procedure of e-money issuance for member banks of “PROSTIR” payment system.

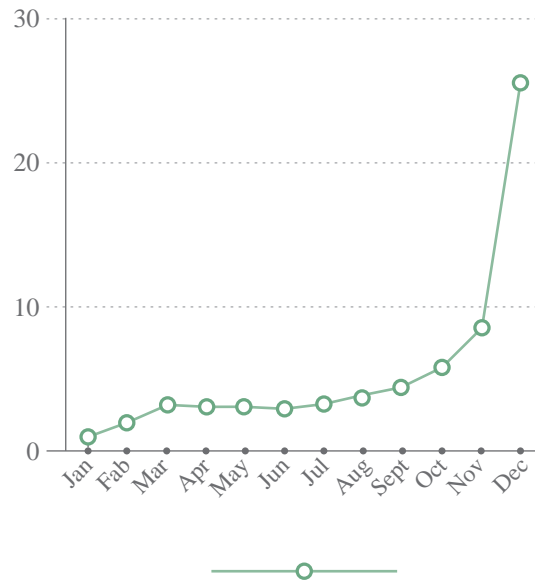
As compared to 2014, the network of acceptance of “PROSTIR” payment cards increased: from 19% to 77% in the ATM network and from 9% to 79% in the terminals network. This provides evidence to conclude that the “PROSTIR” payment card is a convenient and safe payment instrument in the trading and service network of Ukraine and on the Internet.

As of 31 December 2015, 52 out of 122 Ukrainian banks are “PROSTIR” members, or 43% of the total number of bank institutions in Ukraine. In 2015, 8 banks signed agreements to join “PROSTIR.” Also, 4 “PROSTIR” member banks signed additional agreements for operations with the modernized national payment system. Within the reporting year, 21 banks cancelled their membership in “PROSTIR” due to termination of their activity in the bank market.

Number of transactions, processed by CR SCC in 2015



Value of transactions, processed by CR SCC in 2015



The total number of “PROSTIR” payment cards issued (including NSMEP cards) as of 1 January 2016 was approximately 2.7 million, the total number of “PROSTIR” ATMs and terminals was approximately 155,000. Throughout the year, approximately 6.2 million operations amounting to approximately UAH 7.5 billion were made with the use of “PROSTIR” payment cards.

The payment system will be further developed within the framework of projects of the Development Strategy for implementation of the “PROSTIR” payment system in 2016.

The central router of the settlement and clearing center of the NBU (hereinafter – CR SCC) ensures processing of domestic interbank transactions and clearing of operations with the “PROSTIR” payment cards payment system issued by its member banks. CR SCC is a background technology in the national payment area and ensures execution of payments

and processing of interbanks operations with “PROSTIR” payment cards.

In 2015, new participants were connected to the “PROSTIR” CR-SCC system, in particular: Polikombank PJSC, Raiffeisen Bank Aval PJSC, FINANCE BANK PJSC, AB Pivdennyi PJSC, Region Bank JSC, and Diamantbank PJSC. Acceptance of “PROSTIR” payment cards was ensured in the whole network of ATMs of PrivatBank PJSC CB and partially in their trading network. Also, at the end of 2015, the software of payment terminals of Ocschadbank JSC was updated for acceptance of NSMEP payment chip-cards in the trading network.

In 2015, the CR-SCC system processed over 115,000 interbank transactions in the amount of approximately UAH 63 million. In 2015, as compared to 2014, the total amount of processed transactions grew by 2,376.81% and the total number of processed transactions grew by 3,064.64%.



» Next steps

- Further optimization of the series of banknotes and coins.
- Issuance of commemorative and investment coins of Ukraine, search for more convenient ways for their distribution.
- Manufacturing and personalization of the passports for citizens of Ukraine in a form of a card with contactless electronic media.
- Implementation of the Cashless Economy project.
- Simplifying the entrance to the Ukrainian payment market by participants of payment systems created by non-residents and expanding the number of non-resident legal entities that have the right to open bank accounts in Ukraine.
- Expansion of the base of issuers of electronic money by provision of rights to non-bank financial institutions to issue electronic money and establishing the requirements thereto.
- Expansion of the application scope of e-money by granting individual entities the right to make charitable (voluntary) payments and donations, tax payments, duties, and other obligatory charges with e-money.
- Introduction of new technologies and operations for “PROSTIR”: increase of the protection of the operations of e-commerce, introduction of P2P transactions between cards, introduction of cloud and mobile technologies for contactless payments, and ensuring acceptance of “PROSTIR” contactless cards in the network of point-of-sale terminals and public transport vehicles.
- Cooperation of “PROSTIR” with international payment systems.
- Development of specifications for social applications on the “PROSTIR” technology for introducing the products based on student IDs, pension cards and other social projects to the market.
- Tightening supervision (oversight) over payment and settlement systems in Ukraine.

PART III

CHANGE IS UNDER WAY



GOVERNOR'S ADDRESS

KEY POINTS: THE YEAR AT A GLANCE

MISSION, VISION AND VALUES

MANDATE OF THE NATIONAL BANK
OF UKRAINE

PART III. CHANGE IS UNDER WAY

TRANSFORMATION OF THE NATIONAL BANK
OF UKRAINE

NEW COMMUNICATION POLICY

A NEW LEVEL OF COOPERATION WITH PARLIAMENT

HR POLICY

INTERNATIONAL COOPERATION

INTERNAL CONTROL SYSTEM

Financial controlling

Risk management

Internal audit



The interior of the National Bank of Ukraine



VLADYSLAV RASHKOVAN
Deputy Governor of
the National Bank of Ukraine

« We have become
pioneers in reforming
the financial sector.

We are going through painful and difficult transformations in the country, society, state system, and in ourselves. However, these are changes rather than rebuilding. We should not be breaking through walls, because this involves elements of destruction. We should see, think, and create new things preserving the best of the old.

The NBU is also going through changes. Today, the NBU's focus is on implementing the objectives set forth in the Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020.

A lot has already been done, but even more remains to be done.

Our focus next year will be on incorporating our values into our internal processes, continuing the adoption of inflation targeting, laying the foundation for a cashless economy and the PROSTIR national payment system, finalizing reforms in prudential supervision, etc.

It is no exaggeration to say that the NBU is one of the country's leaders in promoting change. This has become possible due to four factors: first, it is the vision of future changes; second, it is the belief that the vision will be implemented; third, it is the implementation of projects to reform the financial and banking sectors, based on a project management system; and fourth, it is shared values that help us move in one direction and achieve our goals. It is team work that enables us to keep going with confidence.

I have always believed, and still believe, that success depends on a team effort. That is why I often tell my subordinates that all of our mistakes are my mistakes, and all of our success is their success. I am deeply convinced that one warrior cannot win a battle alone. I hope that our staff members have the same values, and that together we will create a modern and stable institution, which will attract talented people and set an example for other central banks.

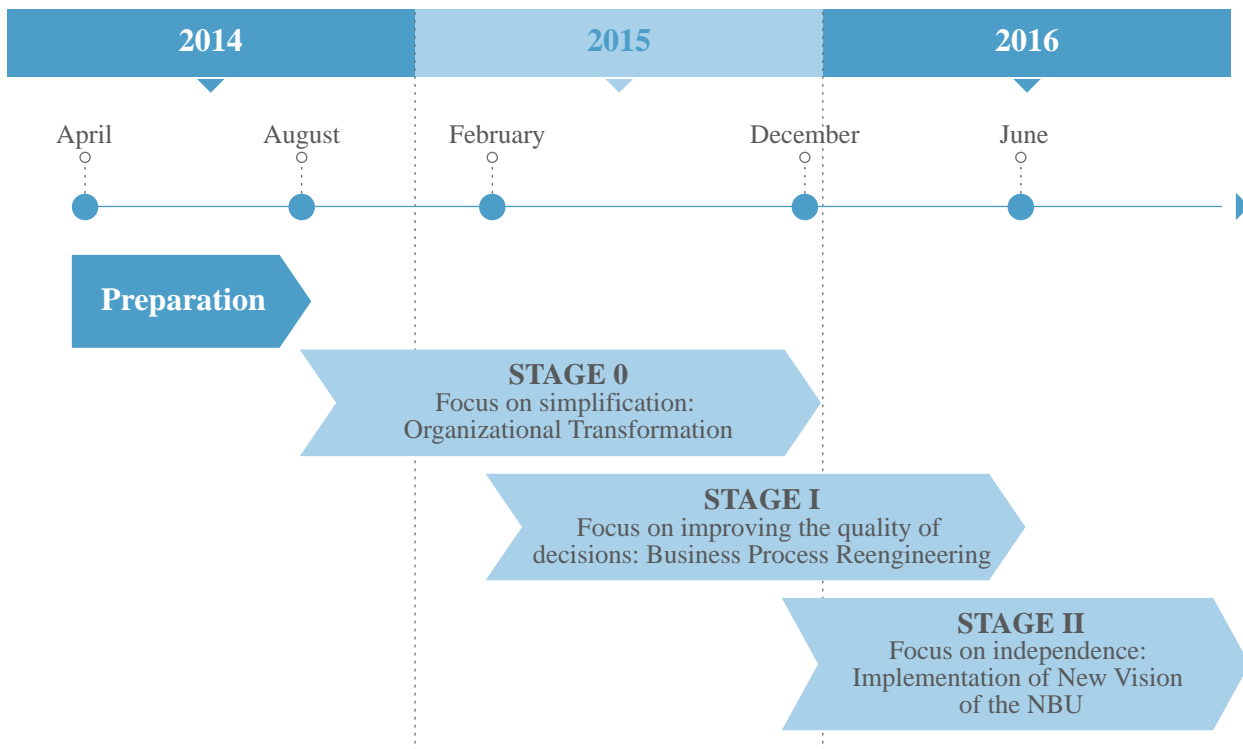
TRANSFORMATION OF THE NATIONAL BANK OF UKRAINE

» In 2015, a transformational reform of the NBU was in its active phase. The preparatory stage, Organizational Transformation, was completed. A new organizational chart has been designed. The number of management levels has been almost halved, the number of professional staff has been optimized, and its composition has been renewed. Implementation of the second stage, Business Process Reengineering, has commenced: over 40 regulatory and auxiliary processes of the NBU underwent major changes.

Transformation of the NBU is an important part of the tasks under the Comprehensive Program for the Development of Ukraine’s Financial Sector Until 2020 covering the institutional capacity building of regulators.

The transformation process of the NBU began in April 2014. It is planned out for 30 months and includes four main phases: preparation, organizational chart transformation, business process reengineering, and implementation of the NBU's new vision.

Stages of NBU Transformation



To implement transformational reform at the NBU, a temporary NBU Structural Reorganization Steering Committee was established in 2014 and transformed into the Changes Management Committee in September 2015. Project management was also introduced to increase the efficiency of changes at the NBU. In the reporting year, over 80 project initiatives and projects were being developed on the basis of project management, the objective of 34 of them was to transform the NBU.

The process of transforming the NBU evolves comprehensively in seven principal areas:

- 1) improving the auxiliary and non-key functions, focusing on the core functions of the NBU and enhancing the effectiveness of decision-making;
- 2) creating a new function-based organizational chart;
- 3) reducing the hierarchical levels of the management structure;
- 4) centralizing functions by introducing a divisionalization;
- 5) improving the network of regional offices;
- 6) bringing the NBU's staff number to a justifiable level (as a result of the above mentioned lines of transformation);
- 7) business processes reengineering.

NBU's Function-Based Organisational Chart



In the reporting year, the Organizational Transformation stage was completed and the Business Processes Reengineering stage was launched. The main results of the transformational reform in 2014-2015 were:

- a number of departments of the NBU that performed uncharacteristic (non-core) functions of a central bank were removed or reorganized: the BTB TV channel, the educational institutions of the NBU, the Maintenance Complex, the Scientific Research Center, the Editorial Office of Periodicals, the Team for International Credit Line Management at the NBU, the Main Administration and Maintenance Office, functions of departmental security service and internal business administration in regional offices, the Healthcare Center, etc.;
- the decision-making system was enhanced, now it is based on the professional interaction of the NBU and nine internal committees (See details in the NBU Committees section);
- the NBU's staff number was brought to a justifiable level. At the end of 2015, the staff was decreased to 5,310 persons, by 46% from

the beginning of the year and by 55% since the beginning of the transformation of the NBU in 2014. This was achieved due to centralization of functions at the Main office, reformation of regional offices, simplification of the organizational chart and reduction of hierarchical levels, removal of non-core functions, etc.

- the institutional capacity of the NBU was increased primarily through amending the Law of Ukraine On the National Bank of Ukraine in June 2015 to increase its political, financial and institutional independence;
- the NBU regional offices network was eliminated due to centralization of functions at the Central office with the location of workplaces for Central office staff in regions.

Reengineering of more than 40 key regulatory and auxiliary processes of the regulator began within the internal transformation of the NBU in 2015. All key processes of the NBU were allocated to individual projects and underwent changes based on international best practices with the assistance of external consultants and experts.

Reengineering of key NBU processes

Line	Process	Process
Reengineering of regulatory functions	New credit process	Cluster approach to supervision
	Risk based supervision	Cash centers strategy
	Statistics and reporting	Centralization of functions and regional offices reform
Reengineering of auxiliary processes	HR-Processes	Project management
	Budgeting process	Business Continuity management system
	Committees-based decision making	Outsourcing and removing non-core functions
	Process-based management	Archive development
	Centralization of MFOs (sort codes)	Re-organization of the procurement process
	Electronic document flow	Internal control system



In 2016, the internal transformation of the NBU will be continued in the following key areas:

- implementing Mission, Vision, and Values of the NBU into the internal processes of the NBU;
- strengthening the key functions of the NBU due to the transition to inflation targeting and developing economic research;
- developing a transparent reporting system,
- completing the supervisory function reform through the introduction of risk-based consolidated supervision and distribution of functions of the National Commission for Securities and Stock Market and building a model of consolidated supervision over the financial sector;
- simplifying the rules for the consolidation of the banking system;
- restoring lending to the economy;
- FX market liberalization;
- developing capital market infrastructure;
- developing cashless payments and reducing the proportion of cash payments (Cashless economy);
- entering international money production markets (Global Mint);
- completing business process reengineering to improve business process management;
- completing removal (outsourcing) of non-core functions and improving the auxiliary functions;
- setting processes for the work of the committee system of the NBU Board, increasing prudence and strengthening accountability in decision-making;
- implementing a communication strategy for the NBU and developing the system of public financial literacy;
- finalizing the improvement of the internal policy of HR allocation, promotion, and development of NBU staff's key skills;
- strengthening corporate social responsibility of the NBU;
- developing a process control system and ensuring business continuity;
- developing internal control and cost management systems;
- strengthening the NBU's balance sheet.

New projects will cover all the NBU's functions and follow the implementation of Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020.

Completion of the transformation process of the NBU will help to fully implement the functions defined by the laws of Ukraine, according to the best international practices. The estimated cost advantage of the NBU Transformation project for the whole period of its implementation (2014-2016) will total over UAH 7.3 billion, and after completing the transformation, it will make nearly UAH 1.1 billion annually.



Project Management at the National Bank of Ukraine

In 2015, the NBU began the transition to integrated project management of activities. Eighty initiatives and projects based on this concept have been implemented, 51 of them were related to the implementation of the Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020 and 34 of them were related to the internal transformation of the NBU (including a pool of 15 projects for the removal/reorganization of non-core functions).

The transition framework is defined in the *Project Management Model Concept* approved by the NBU Board.

These tasks are performed within the scope of the following main elements:

1) Implementation of the NBU's Strategy:

- ensuring decomposition of the NBU's Strategy into the portfolio of projects;
- introducing uniform criteria for a project, which allows for separation of project activities from daily operations;

2) Introduction of a unified approach to project management:

- introducing uniform standards of the organizational structure and role model of project management;
- clear division of project management functions between a sponsor, project leader, and project manager;
- creating a mechanism for an internal "market of project managers" to balance supply and demand for resources in project management.

3) Provision of project management:

- creating a Project office to support projects at all stages of the life cycle;
- building a project reporting system and synchronization of projects in the portfolio;
- establishing the Change Management Committee, i.e., a collegial body for centralized project management.

4) Development of a project management culture:

- developing and implementing standard methodologies and tools of project management;
- introducing a system of continuous development of project managers' competences, including trainings and other modes of study;
- ensuring the collection and analysis of project experience as a basis for improvement of methodology and project management.

The results of the project management implementation at the NBU:

- 1) the Change Management Committee, a collegial body for centralized management of project activities of the NBU has been established;
- 2) Office for Banking System Strategy and Reforms has received a mandate to act as a Project Office;
- 3) the appropriate regulatory framework that regulates the activities of the Project Office and the Change Management Committee, as well as the Regulation *On the NBU's Project Activities* have been approved;
- 4) the methodology of project activities, including project and reporting document templates, guidelines for filling them out, closing the project, project concept presentation templates, etc., have been developed;
- 5) a special internal Project Activities portal with the appropriate information content has been set up;
- 6) a market of project managers has been created, consisting of a team of internal project managers working in the Project Office representing the NBU departments;
- 7) the initial training for contributors to project activities and development of internal project

managers' competences have begun. In 2015, four workshops for leaders and project managers were held with the assistance of external experts on project management;

- 8) strategic initiatives have been introduced into the portfolio of projects of the NBU and the system's management is performed according to the strategic vision of the NBU development.

Benefits of implementing the project-based approach at the NBU:

- providing the desired rate of introducing transformational changes owing to support by Project Office of implementation of the NBU's projects and the Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020;
- saving project resources due to the introduction of standard approaches, methodologies and project management tools;
- synchronization of projects according to the strategic vision of the development of the NBU and the Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020.

In 2016, as a part of the development of project management at the NBU, it is planned to complete the development of project management culture through the introduction of a system of continuous development of project managers' competencies, including different modes of study.

Reformation of the NBU's Regional Offices' Activities

One of the key projects is a project for reforming the network of regional offices by their removal from the structure of the NBU and centralization of their functions at the Main Office of the NBU.

The target model for the project's concept provided for reformation of 25 regional offices by implementing a series of interrelated projects:

- 1) centralization of all regional offices' functions at the Main Office with the preservation of certain functions at the regional level (representative, cash, and administrative functions; organization of document flow through the "Single window"; IT support; and transaction accounting);
- 2) centralization of MFOs (balances) with the corresponding elimination of regional offices as stand-alone branches of the NBU;
- 3) centralization of payroll accounting;
- 4) launching the One-Stop Shop⁸;
- 5) outsourcing the functions of premises protection, etc.

Today, the employees working at the NBU's Regional Offices are in charge of providing the regions with banknotes and coins of all denominations in the required quantities and handling requests from households and legal entities through the One-Stop Shop. The One-Stop Shop was designed to streamline and consolidate provision of services related to licensing, public relations and communications, foreign exchange control, financial monitoring, etc.

The final stage of the transformation of the regional offices network was the centralization of their balance sheets into a single accounting system and transfer of 24 regional offices of the NBU in regions to work under a single bank's sort code (MFO), as well as in the centralization of the payroll accounting. As part of the centralization process, five standalone units of the NBU (the Central Vault, the State Treasury of Ukraine, the Main Administration and Maintenance Office, the Central Clearing House and the Project Management Team) were transferred to work under a single bank's sort code (MFO).

In 2016, the work on removing all regional offices from the registers of registration bodies shall be continued.

The implementation of the project of regional offices' activities reform allowed the NBU to:

- increase the effectiveness of functions of the NBU in the regions;
- eliminate function overlaps and reduce the costs of the NBU;
- strengthen the core functions of the regulator and simplify the organizational structure of the NBU;
- bring to a justifiable level the number of the NBU's staff whose workplaces are located in the regions from about 4,000 to about 1,400 persons (by 65% compared to the beginning of 2015).

8. Концепція впровадження та функціонування «Єдиного вікна» // <http://www.bank.gov.ua/doccatalog/document?id=21630100>

NEW COMMUNICATION POLICY

» *An effective communication policy is essential for the NBU to implement its main goal, which lies in achieving and maintaining price and financial stability in the country. In order to be understood by the public and various target groups, in 2015 the NBU actively worked to improve its level of transparency and accountability to the public. Information about all aspects of the regulator's activities, i. e. the decisions and forecasts made, core functions, progress in reforms and transformation have been broadly reported. At the same time, 2015 can be justifiably considered a year of developing communications in the area of monetary policy formulation and implementation. In addition to implementing a continuous cycle of communication of monetary policy decisions, the NBU started drafting and publishing key reports of the central bank.*

As of today, the world's central banks have come to a consensus on the need for active media coverage of the central bank's information and especially of clarification of its policies on the basis of appropriate communication.

Transparency and communication strengthen the effectiveness of policy implementation and improve the accountability of a central bank. Data disclosure, provision of information about its actions and explanation of its decisions gives an opportunity to the central bank to form market expectations and predict their behavior, while economic agents will have a possibility to make reasonable and high-quality economic decisions.

Transparency is also critical as a means of promoting good governance, which is essential for improving the accountability of a central bank and strengthening its political independence.

The definition of the Vision of the NBU as a modern central bank, which is open and integrated into the EU community, presupposes attributing strategic importance to clear and understandable communications among its other tasks.

The Communication Strategy is the basis of the informational cooperation of the NBU with society and it's based on the principles of transparency, consistency, and coherence. The purpose of implementing of the Communication Strategy is to develop understanding of the functions and assignments of the regulator by informing the public about the policies, decisions, and actions of the NBU.

To maximize the efficiency of implementation of this goal, a wide range of tools are applied and are implemented through various channels in order to meet the needs of target audiences.

Strengthening Communication with the Public and Accountability

In 2015, the NBU greatly expanded its information cooperation with different target audiences. In addition to traditional communication media, speakers of the NBU regularly explain the decisions and policies of the regulator, communicating directly with representatives of public authorities, financial and banking markets, business and investment communities, experts and academics, students and youth.

Throughout 2015, NBU speakers gave 88 interviews to TV, radio, Internet, and print media. The Press Service prepared 771 responses to requests from the media, and held 27 press conferences and briefings. An important tool for transparency and accountability of the regulator is the annual closing press conference of the NBU Governor, which traditionally arouses considerable interest in the media and strong informational resonance. Communication with the regional media is not left unattended; it is carried out by the central NBU Press Office and during visits of the NBU's top management to the regions.

Transparency of the NBU activities. Communications



106 public events involving members of the Board and key speakers



4.6 million visitors of the NBU web-site



88 interviews for TV, radio, Internet broadcasting and print media



424 press releases



27 press conferences and briefings for mass-media



7 info-days for business mass media



771 responses to mass-media inquiries



8 online video-broadcasts of briefings

The Board and top managers of the NBU take part in professional discussions and expert communications by explaining the policy of the regulator to interested groups: the business community, expert community, and other information user groups. From the beginning of the year, they attended 106 public events (those organized by the regulator with the participation of the media and external ones, i.e., conferences, round tables, etc.). In all these events, NBU leaders made speeches, answered questions from the audience, and communicated with the participants.

The NBU continues to strengthen communication with public authorities. Apart from three reports made by the regulator's management at plenary sessions of the Verkhovna Rada of Ukraine, Board members and heads of NBU structural units are actively involved into the work of the Parliamentary Committee on Financial Policy and Banking (since the beginning of the year they have participated in the work of 24 meetings of the Committee).

According to the research of VoxUkraine, in 2015, the NBU was the second in the overall assessment of ministries and departments, which included a survey of public knowledge of the reforms carried out by the NBU.

In the reporting year, the practice of giving public lectures on financial and economic development by the regulator's management for university students has been initiated (over 20 lectures were held in Kyiv and regions).

According to the results of 2015, the NBU Press Service ranked second in performance among all press services of state bodies (research by GfK).

One of the key elements of the Communications Strategy is the introduction of a new approach and structure of communications concerning monetary policy.

Communication of monetary policy decisions

The purpose of communications on monetary policy is to ensure that the monetary policy, the reasons for transition to the inflation targeting regime, and the way it contributes to limiting inflation and achieving price stability is clear and predictable to market participants and the public. An important element in the implementation of this goal is regular explanation of the formulation and implementation of monetary policy.

Systematic work in this area in 2015 helped to establish and secure a lasting cycle of communications on monetary policy. In particular, after a decision on monetary policy is made by the NBU Board, it is made public. The cycle of communications includes an obligatory (two hours after the decision is made) press briefing with the participation of the NBU Governor and the Deputy Governor in charge of the monetary policy. The press conference on the announcement of decisions on monetary policy is broadcast in real time on the NBU website. The press briefing video, as well as the text of the Governor's speech, and the press release are posted on the NBU website on the same day.

In addition, progress is achieved in preparation of the key reports of the central bank to be distributed among the public. In particular, the regulator began publishing quarterly inflation reports containing assessments of inflation development and macroeconomic forecasts.

Information Channels of the NBU

The NBU website was and remains an effective tool for informing the public: in 2015, 4.6 million users viewed nearly 57 million pages of the site. In the period of excessive volatility in the FX market (for example, in February-March 2015) the number of visits to the regulator's website as a source of relevant, reliable, and accurate information increased 2-4 times.

In total during 2015, over 100,000 pieces of information were posted on the pages of the official NBU website.

The rapidly growing volumes of information posted by the NBU and public interest to it mean that there is a need to modernize the official website, and it should be one of the priority assignments in developing the NBU's communications.

In 2015, sections, where information for the public is posted underwent significant transformations. In particular, messages and press releases in the News section are published quickly and efficiently, interviews given by representatives of the institution to the media can be read in the Direct Speech section, and public presentation materials of NBU speakers are available in the Presentations section. In addition, a new Monetary Policy section has been created. It is the main platform for official publication of information concerning principles,

implementation, forecasts, and plans related to monetary policy.

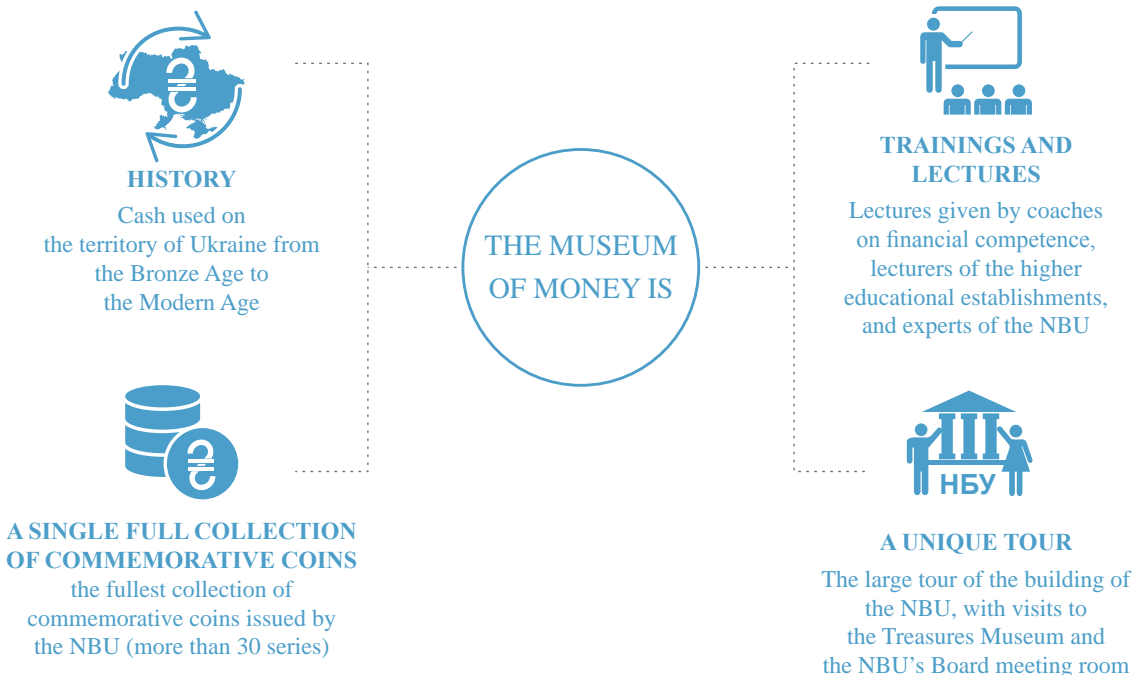
Also in the reporting year, the NBU deepened cooperation with the public through social media, which are also communication channels of the regulator. In particular, the NBU has its own accounts in Facebook, Twitter, YouTube, and Flickr. The coverage in social networks is continuously growing. During the first year of the NBU's page on Facebook, more than 18,000 users signed on to it. The total coverage by the NBU's messages is more than 4.3 million hits. Thus, weekly coverage is over 93,000 people.

Museum of Money

In 2015, according to the concept of transparency, the *Open Museum Means Open NBU* project was launched at the NBU Museum of Money.

In the spring of 2015, for the first time since the establishment of the Museum (in 2004), the process of registering visitors has been considerably simplified. Since April 2015, all one has to do to register is just to complete an online form on the Museum's page on the official NBU website. Visitors are also offered a new advanced format of a tour – in addition to exploring the historical collection, the tour program includes visiting the Treasures Museum and the NBU building. Special focus was on youth. Throughout 2015, trainings and lectures on financial literacy were conducted for school and university students.

The new registration process and a proactive approach allowed the NBU to increase the number of visitors at the museum more than fourfold (in 2015, 3,204 persons visited the exhibition).



NBU's Museum of Money
(established on 23 March 2004)

Over **13,000** unique museum display items

before 2014

2015

2016



799
visitors

3 204
visitors



cumbersome registration procedure



traditional guided tour



online registration



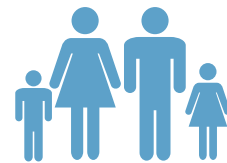
financial literacy classes for children



extended tour (NBU building, Museum of Money, Treasury Museum, Board meeting room)



financial literacy summer camp for children – NBU TeenCamp



further growth of the number of visitors and transformation

The NBU extends an invitation to the Museum of Money.
Visit the NBU's website to register for a tour



Public Council

In 2015, the Public Council as a permanent NBU advisory body continued to act as a communication platform of cooperation between the NBU and the public.

As a consultative and advisory body, the Public Council considered issues brought by temporary commissions. In particular, the temporary commissions covered the following thematic areas: stabilization of hryvnia; resolving problems of FX

consumer loans; issues of banks declared as insolvent; the banking system reform; payments effected by individuals.

The Public Council has also actively participated in discussions on resolving problems of consumer loans in foreign currency. In particular, it has initiated a series of joint meetings with representatives of the Ukrainian banks that have the largest portfolio of consumer loans in foreign currency secured by mortgages, and NBU representatives.



A NEW LEVEL OF COOPERATION WITH PARLIAMENT

In 2015, cooperation between the NBU and the Verkhovna Rada of Ukraine rose to a completely new level.

At the beginning of the reporting year, for the first time in decade, the Parliament held hearings on ways to stabilize the banking system of Ukraine. Representatives of the financial elite of Ukraine addressed participants of the hearing. In particular, over 40 respected speakers shared their views, among them were the Governor and two former Governors of the NBU, the Chairperson of the Verkhovna Rada Committee on Financial Policy and Banking, a representative of the President of Ukraine in the Verkhovna Rada of Ukraine, representatives of the Ministry of Finance of Ukraine and the Household Deposit Guarantee Fund, people's deputies of Ukraine, representatives of designated public organizations, heads of banks and non-bank financial institutions, and scientists and experts from the financial market.

As a result of this hearing, the recommendations that are taken into account when formulating the draft of the Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020 have been developed.

Three times during the year the Governor of the NBU gave explanations to the Parliament for the NBU's actions and their purposes, and reported on the status and prospects for development of the banking sector.

The NBU maintained an active stance on legislative improvements. Our cooperation with a designated committee of the Verkhovna Rada of Ukraine has improved. During the year, NBU management took part in 24 meetings of the Parliamentary Committee. Members of the NBU Board regularly reported to the Parliament on the results of the reforms and clarified the regulator's policy. Owing to the efficient cooperation, a number of important laws on increasing independency and institutional capacity of the NBU and development of the financial and banking market on the whole were passed

The most important changes:

1) *The adoption of Law No. 541-VIII of 18 June 2015 On Amendments to Certain Legislative Acts of Ukraine Regarding Development of the Institutional Capacity of the National Bank of Ukraine and Law No. 542-VIII of 18 June 2015 On Amendments to the Budget Code of Ukraine Regarding Development of the Institutional Capacity of the National Bank of Ukraine should be considered not only in terms of the present time, but also as a strategic decision for many years to come, since the NBU finally was enabled to pursue an independent monetary policy and improve its functioning as an institution. This law launched comprehensive transformation processes for NBU management.*



21

draft laws prepared with contributions from the NBU



8

laws concerning reformation and development of the financial sector



28

draft laws under consideration with the Verkhovna Rada of Ukraine

The most important innovations: the mandate of the NBU was updated and clarified, the powers of the NBU Council were expanded, functional and financial independence of the central bank as well as the personal independence of the members of its governing bodies were increased, a decision-making system at the level of committees was introduced, etc. The set of legislative changes advanced the NBU to the operational standards of the best central banks.

2) With active support, the NBU managed to make legislative changes designed to enhance the institutional capacity of the Household Deposit Guarantee Fund. Thus, on 16 July 2015, the Verkhovna Rada adopted the Law *On Amendments to Certain Legislative Acts of Ukraine as to Improvement of the Individual Deposit Guarantee System and of Insolvent Banks Resolution*. This law expanded the functions

of the NBU with the authority to pre-qualify persons who may be involved in withdrawal of insolvent banks from the market and to make a list of such persons. The result of implementing these provisions consists in enhancement of the requirements for persons engaged in the liquidation of banks, which together with other provisions of the adopted law should provide an opportunity to increase the amount received by the Household Deposit Guarantee Fund from the sale of assets of insolvent banks and kick the start of payments to depositors, which in its turn will reduce social stress.

3) An important stage for the development of the banking market and restoration of confidence in banks was Law of Ukraine No. 424-VIII of 14 May 2015 *On Amendments to Certain Legislative Acts of Ukraine Regarding the Terms of Repayment of Fixed-Term Deposits*. The law



Nos. **541-VIII** and **542-VIII**
of 6 June 2015

strengthening the institutional
capacity and the financial
independence of the NBU



No. **629-VIII**
of 16 July 2015

developing the institutional
capacity of the Household
Deposit Guarantee Fund



No. **289-VIII**
of 7 April 2015
improving investors'
rights protection



No. **321-VIII**
of 9 April 2015

On Amendments to the Tax
Code of Ukraine Regarding
Taxation of Transactions of
Debt Forgiveness



No. **424-VIII**
of 14 May 2015

regarding fixed-term
deposits – insurance of
sustainable and predictable
resource portfolios

states that the early return of the deposit and interest accrual thereunder is only possible when it is provided for in the contract terms of the bank's fixed-term deposit. Previously, individuals could receive any deposit, including a fixed-term one, on their first demand.

- 4) In 2015, the NBU successfully adopted progressive legislation that helped in disclosing information about the real owners of banks. The law prohibits the owners of failed banks to return to a banking business and to management positions in banks, increases bankers' responsibility for their activities, and threatens them with fines and imprisonment for misconduct that brought a bank to the introduction of the provisional administration. Among other things, this allows the Deposit Guarantee Fund to recover funds from "bad" shareholders of failed banks more efficiently.

This refers to the Law of Ukraine No. 218- VII of 2 March 2015 *On Amendments to Some Legislative Acts of Ukraine Regarding Liability of Bank's Related Persons*.

This law primarily strengthened responsibility of bank managers, beneficial owners of the bank, and other owners of a qualifying holding in the bank when making decisions affecting the financial

condition of the bank, as well as increased the efficiency of banking supervision to ensure the stability of the banking system and protection of the interests of banks' depositors and creditors. The amendments to certain legislative acts of Ukraine introduced by the specified law, especially to the Laws of Ukraine On Banks and Banking and On the Household Deposit Guarantee System form the legal environment for taking effective measures to ensure the stability of the banking system amidst increased financial risks, help increase the overall level of confidence in the banking system of Ukraine, reduce costs of the Household Deposit Guarantee Fund payments to individual depositors, and improve the protection of rights of other creditors of banks.

During 2015, the NBU sought to solve the problems of Ukrainian FX borrowers, looking for efficient mechanisms of protection and support for such persons. Primarily it refers to low-income and socially disadvantaged groups. The NBU supports a voluntary solution of the problem on reasonable terms both for banks and borrowers. That is why the regulator welcomes a single consolidated position achieved by banks in preparing a separate draft law that combined mechanisms of memoranda on restructuring consumer loans in foreign currency.



No. **218**-VIII
of 2 March 2015
Increasing the liability of
bank's related persons



No. **701**-VIII
of 17 September 2015
On restructuring of public and
public-guaranteed debt and its
partial writing-off



No. **913**-VIII
of 24 December 2015
On Measures Contributing
to the Capitalization and
Resolution of Banks

Draft Laws of Ukraine brought before the Verkhovna Rada of Ukraine according to the objectives of the Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020 (as of 1 April 2016)

Area of reforms	Project Number	Draft Law of Ukraine
Banking Sector	2460a	On Amendments to the Tax Code of Ukraine Regarding Access to Information about Tax payers
	3555*	On Financial Restructuring
	4004	On Restructuring the Liabilities of the Ukrainian citizens under Loans Taken in Foreign Currency to Purchase a Single Residential Property (Mortgage Loans)
	2506a*	On Bodies and Persons Engaged in the Enforcement of Court Judgments and Other Authorities Decisions
	2507a*	On Enforcement Proceedings
	2508a	On Amendments to the Tax Code of Ukraine (On Private Enforcement Officers)
	2430a	On Amendments to Certain Laws of Ukraine on Preventing and Countering Legalization (Laundering) of the Proceeds from Crime or Terrorism Financing, as well as Financing Proliferation of Weapons of Mass Destruction
Capital Markets	2302a	On Amendments to Certain Legislative Acts of Ukraine Regarding Improvement of Corporate Governance in Joint Stock Companies
	0956*	On Amendments to Certain Legislative Acts of Ukraine Relating to the Issue of Securities
	3498*	On Amendments to Certain Legislative Acts of Ukraine (Regarding the Regulated Markets and Derivatives)
	3499*	On Amendments to the Tax Code of Ukraine (Regarding Regulated Markets and Derivatives)
	3500*	On Amendments to the Budget Code of Ukraine (Regarding Regulated Markets and Derivatives)
	3516*	On Amendments to the Customs Code of Ukraine (Regarding Regulated Markets and Derivatives)
	3660	On Amendments to the Law of Ukraine <i>On Arbitration Courts</i> to Bring it in Line with the Requirements of International Arbitration Rules

* Draft law was adopted in the first reading



	4160	On Amendments to Certain Legislative Acts of Ukraine Regarding Corporate Contracts
	4162	On Amendments to Certain Legislative Acts of Ukraine Regarding Peculiarities of the State Banks' Management
	1797-1*	On Insurance
Non-Banking Sector	1800	On Pawnbroker's Shops and Their Activities
	2767	On Amendments to Certain Legislative Acts of Ukraine Regarding Introduction of a Funded System of Mandatory State Pension Insurance and Common Principles for Calculating Pensions
Institutional Capacity Building	3551	On Amendments to Certain Legislative Acts of Ukraine Regarding Compulsory Insurance of Civil Liability of Owners of Vehicles
	3739*	On Amendments to Certain Legislative Acts of Ukraine Regarding Streamlining the Licensing of Businesses Providing Financial Services
	2413a	On Amendments to Certain Legislative Acts of Ukraine to Consolidate the Functions of State Regulation of Financial Services
	2414a	On Amendments to the Tax Code of Ukraine to Consolidate the Functions of State Regulation of Financial Services
Consumer Right Protection	2287a-1	On Amendments to Some Legislative Acts of Ukraine (On the Protection of Individual Rights for Free Selection of Banking Institution for Receiving Salary, Pension, Other Payments and money Saving Measures for Budgetary Institutions, State and Municipal Funded Enterprises)
	0959*	On the Prohibition of Ponzi Schemes in Ukraine
	2455*	On Consumer Lending
	2456-Д*	On Amendments to Certain Legislative Acts of Ukraine Regarding Improvement of Financial Services Consumers' Right Protection

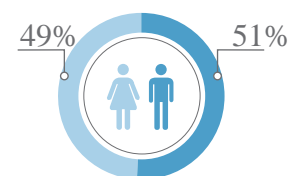
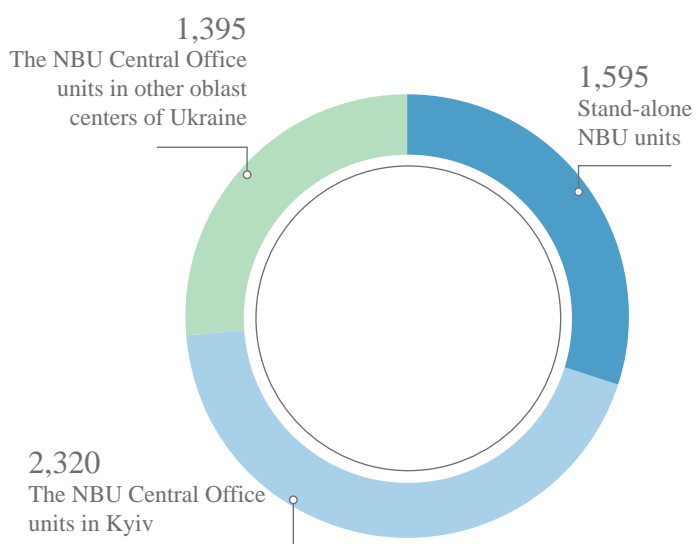
HR POLICY

» *HR policy is one of the key factors for ensuring the institutional capacity of the NBU as a regulator within the framework of achieving the NBU Vision and implementing the Comprehensive Program for the Development of Ukraine's Financial Sector Until 2020.*

The year 2015 was the year of the global organizational transformation of the NBU. Special attention was paid to reforming existing functions and building a set of new functions, upgrading the

quality of the staff, and improvement of the expertise and competence level. As a result of transformation, the NBU will be a balanced, more advanced, and efficient public institution.

NBU Personnel



Women/men

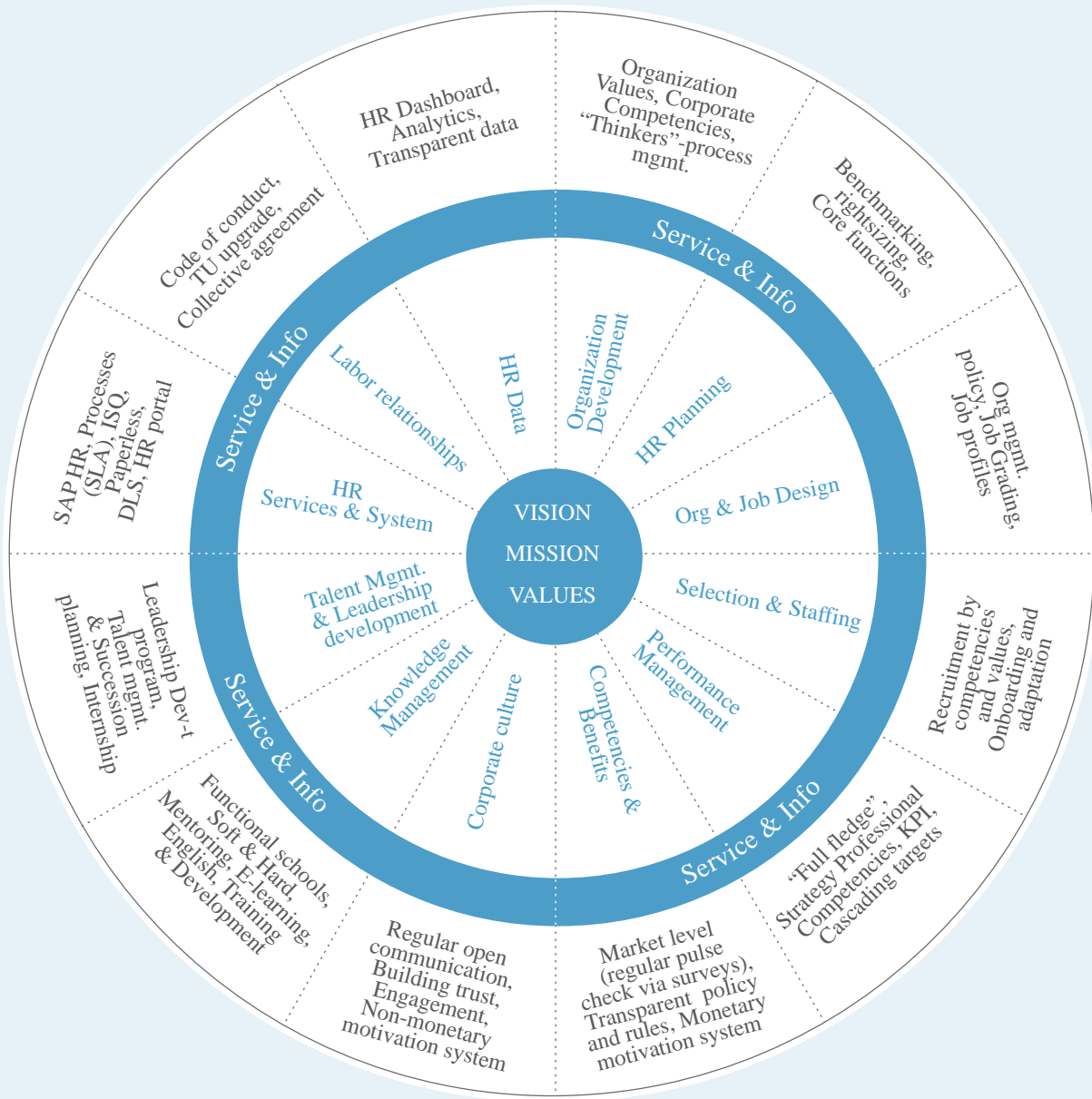


84%
Employees
with a degree

The main priorities of the HR policy of the NBU for 2015-2020 are:

- balanced organizational development and building of process-based management;
- quality and efficiency of personnel (including by compliance with NBU Values and continuous upgrading of the quality of the NBU staff);
- creation of opportunities and support for personnel development;
- building a strong institutional corporate culture and internal communications system;
- consistency and transparency of actions, approaches and solutions.

The Main Directions of the HR policy of the NBU



In accordance with the HR policy priorities, the modules of training, development, and coordination of HR management were built in a new fashion and in a quality manner in 2015, with the vision of compensation functions, benefits, and personnel administration centralized and formed as fundamentally different.

Efficiency Management

In 2015, as a part of the NBU transformation, introduction of up-to-date approaches to management, and approval of decrees, several important projects aimed at improving the efficiency of the NBU as an institution were realized.

In particular, a Performance Management System based on a Corporate Competency Model and key performance indicators (KPIs) were introduced this year.

Tasks of Performance Management System implementation:

- 1) Flexibility of management and consistency of management decisions, complexity and integration of the various procedures of personnel management into a single system.
- 2) Improving the managerial competence of senior and middle managers, establishment of a common standard for HR managers at all levels.
- 3) Ensuring the transparency of motivation, development, and career promotion principles for employees.
- 4) Formation and development of a corporate culture through standardization of activities based on corporate competencies, organizational values, and improvement of internal communication concerning the vision, mission, and strategy of the NBU.



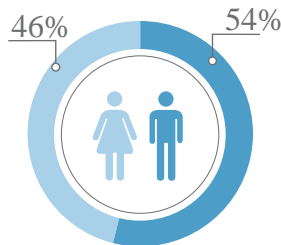
44

Average age, years

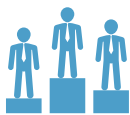


13

Average track record at the NBU



Women/men in senior management positions



6

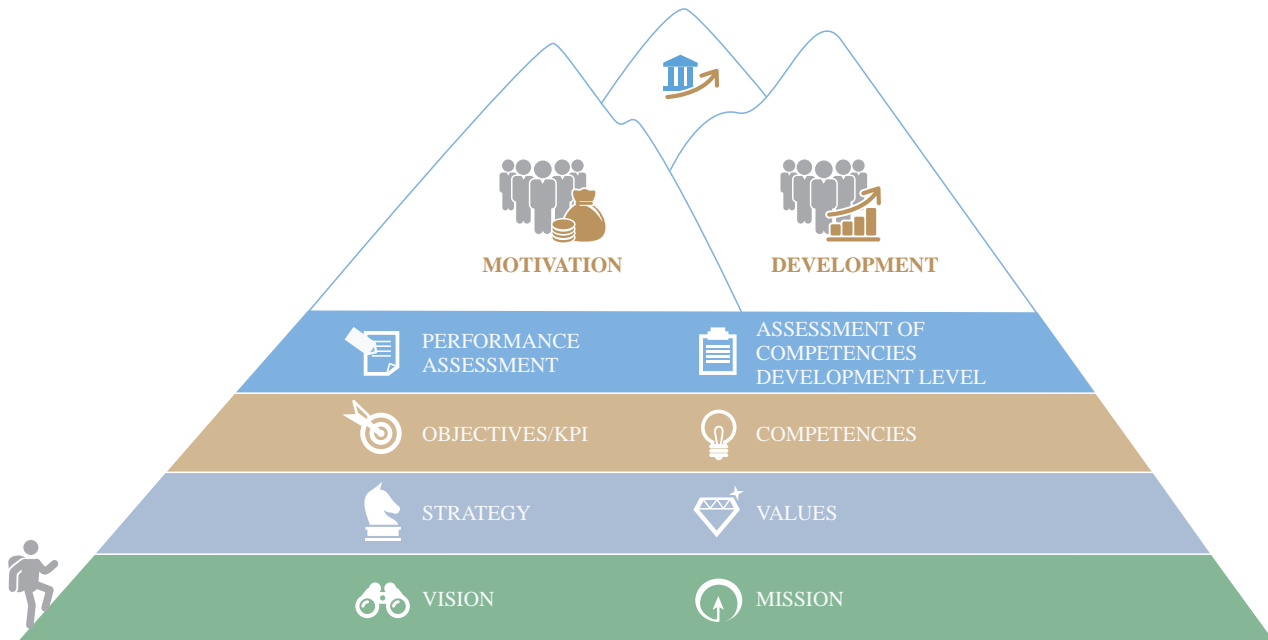
Board Members



516

Managers

Performance Management System



- 5) Involvement of personnel of all levels into the implementation of strategic goals of the NBU, including understanding the impact on the performance of the NBU by each employee.

The corporate competencies model defines the standards of behavior that are uniform and binding for all employees of the NBU regardless of the position and management level. Corporate competencies not only provide insight into "correct" behavior, but also serve as a basis for further consistent development of all employees of the NBU.

The first step in implementing the Performance Management Systems was development of the Vision, Mission, and Values of the NBU.

The organizational values were researched by the HR Department and invited external consultants in the form of individual interviews and focus groups with managers and e-survey of all employees of the NBU. In all, more than 1,200 employees of the NBU of different management levels participated in the research of the values. The result of the research was a list of today's TOP 10 values of NBU and a list of the TOP 10 values in 2020 perspective.

In the course of the debates and panel discussions as a part of a strategic session participated by about 40 senior and middle managers, the Vision and Mission of the NBU were defined. The strategic session was held by the HR Department in the form of an interactive event involving external moderators. Based on the results of previous research of the values with participation of all

employees of the NBU, the participants of the session also defined the TOP 5 ("5P") organizational values of the NBU.

Based on the approved list of TOP 5 Values of the NBU, the project team composed of representatives from various divisions of the NBU developed the model of corporate competencies of the NBU as part of the next stage of Performance Management System. The following key competencies were defined:

- cooperation - involves establishing cooperation and quality communication to achieve a common objective;
- result orientation - the ability to define an objective, combine objectives of the organization, focus efforts and achieve results;
- competence and development - efficient use of professional knowledge, skills and experience, development and commitment to excellence to achieve the objectives of the organization;
- proactiveness - innovation in finding and implementing ideas, independent influence on the circumstances, and personal responsibility for the consequences;
- organization – planning and controlling activities with due regard to the priorities and resources for efficiently executing a task.

The corporate competencies model defines the standards of behavior that are uniform and binding for all employees of the NBU regardless of the position and management level. Corporate competencies not only provide insight into "correct" behavior, but also serve as a basis for further consistent development of all employees of the NBU.

Modeling of the corporate competencies was performed by the project team involving external consultants on the basis of individual interviews, focus groups involving the employees of different departments, management levels, experience, and length of service in the NBU. In total, about 100 employees participated in the modeling of corporate competencies as respondents.

The project resulted in the "five elements" model of corporate competencies based on organizational values of the NBU and is one of the criteria in the annual assessment of activities, which meets the principles of Performance Management System. According to the results of the competence

development assessment, an individual development plan for each employee is formed, and in the future – Personnel Training Plan of the NBU.

One of the major stages of implementing the Performance Management System in 2015 was also the development and launch of the procedure of forming and evaluating the goals, objectives and KPIs. The new procedure is to ensure conformity between of the NBU's Strategy and goals of the employees through the "objectives tree," which is developed annually and approved by the NBU Board.

The procedure of forming and evaluating goals, objectives, and KPIs sets the principles of goals cascading from the highest level – strategic goals and annual goals of the NBU to lower levels – levels of each employee of the NBU. The direct link between activity and productivity of each worker and efficiency of the organization as a whole is set through the principle of cascading. Thus, each employee has an impact on the success of the NBU by his/her results, and ensures the implementation of a strategic program of Ukrainian financial sector development.

The procedure of forming and evaluating the goals, objectives, and KPIs was developed by the Personnel Department, including in the form of practical training - workshops - involving managers of different management levels. In total, the workshops were attended by more than 500 managers, each of whom had the opportunity not only to learn new principles of planning the objectives and performance evaluation, but also to directly draft their goals for a certain period.

Performance evaluation based on goals, objectives, and KPIs along with the assessment of corporate competence development level is the criterion for the annual assessment of activities, which meets the principles of the Performance Management System. The regular bonus for the employees of the NBU is calculated under the evaluation results.

Knowledge Management

In 2015, the NBU changed the principles of personnel training and development: training aimed at the development of interpersonal skills (soft skills) was introduced in addition to professional training

designed to support and improve the functional competency of the employees (hard skills).

Overall, during 2015, the Personnel Department organized 300 training events (seminars, workshops, courses, internships, etc.), both for the development of skills and development of competencies and interpersonal skills, including 57 events abroad.

Among the 4,041 attendees who participated in these training events, 3,071 attendees were NBU employees, others were specialists of banks and other institutions.

Over 2015, these events were attended by 2,400 employees at 156 events in Ukraine and by 68 persons in 57 events abroad.

In 2015, the NBU supported the GoGlobal program created on the initiative of the President of Ukraine. The NBU Board approved an updated concept on improvement of the level of English knowledge of the NBU's employees, which focuses primarily on improving the efficiency of business communication and decision-making by NBU employees as part of international cooperation. In addition, a large-scale test for the level of English proficiency of about 400 managers of the NBU was held, which consisted of assessing the level of knowledge through a Placement Test and verbal speaking test. The test results demonstrated that 41% of employees of the NBU speak English at a level sufficient for efficient operation (A1 - A2), 24% of tested persons have a command of English at an elementary level (A0), and 22% at the intermediate level (B1 - B2) and higher.

As part of the modernization and improvement of personnel training, in the reporting year the NBU started an online learning system. During the second half of 2015, the e-courses were developed on the following topics: Business Meetings, Annual Review of the NBU Activities, ASKOD Operation, Business Etiquette, Adaptation of New Workers, etc. The list of training courses is constantly expanding in order to create additional opportunities for personnel development.

Another information channel for increasing the professionalism of NBU employees is a large library collection (over 80 thousand publications) of professional and business literature and periodicals. The collection is constantly updated, including developing an electronic library of publications.

Recruitment and coordination of work with personnel

In late 2014, the NBU introduced two new functions - recruiting and coordination of work with personnel (HR business partners). During 2015, these functions passed the building phase and reached the planned level of quality of operation in terms of availability of the employees, establishment of regulatory documents and changes in internal processes of the NBU related to the personnel management.



2,400

employees attended training events in Ukraine



68

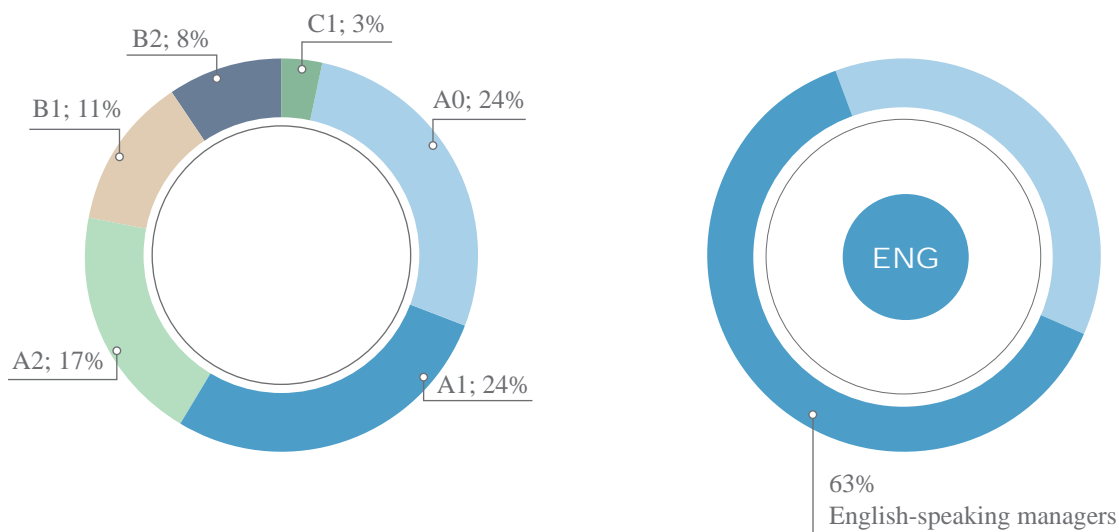
employees attended training events abroad



821

participants to the personal development courses

Levels of English proficiency of the NBU employees



Coordination of work with personnel

When creating the function of recruiting, the key underlying principles were defined as accuracy, objectivity, quality, and safety. In particular, testing for a propensity for unreliable behavior (propensity for corruption, etc.) was introduced.

During 2015, 289 workers were employed through the new process of personnel recruitment.

Throughout 2014-2015, the management team of the NBU was significantly renewed.

The function of personnel management operates on the principle of One-Stop Service as a center for coordination of the Personnel Department activities (centers of expertise) with the NBU subdivisions.

The personal HR manager responsible for the coordination of the personnel in the appropriate unit or region is assigned to each management vertical of the NBU.

Key principles incorporated in the establishment of the personnel coordination function are customer focus, efficiency, adaptability, and consistency.

In 2015, Personnel managers coordinated the issues of restructuring the NBU, establishment of new

subdivisions, transfer and career development of the employees, the issues of financial and non-financial incentives, introduction of new HR products, etc.

Compensations and Benefits System

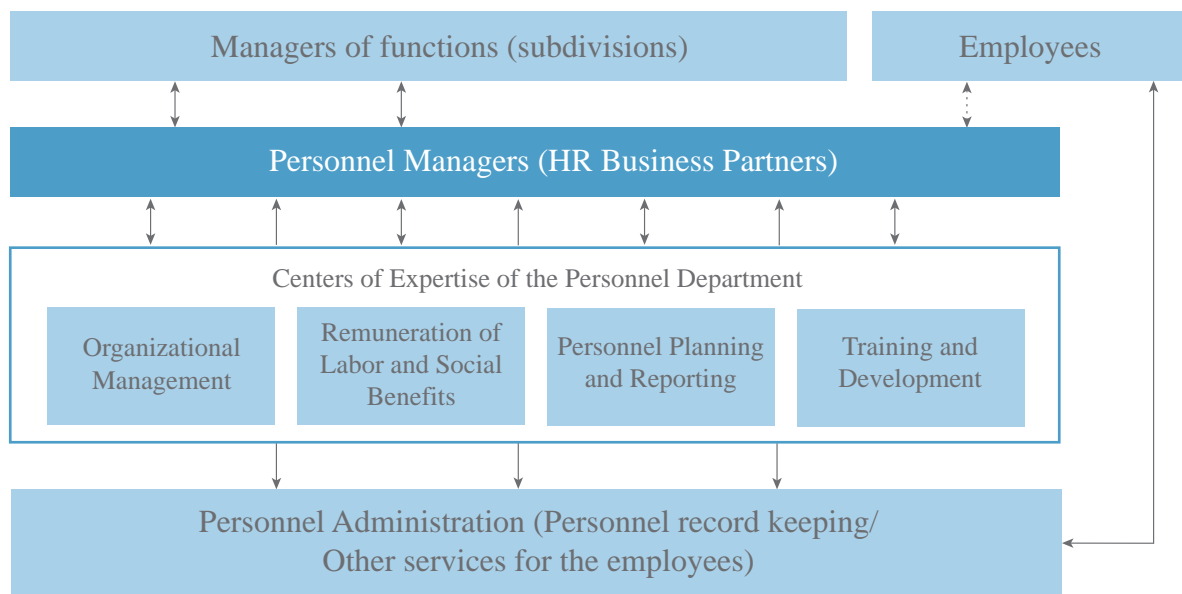
Since 1 October 2015, the NBU has introduced a new system of remuneration of labor.

The main areas of changes in the remuneration system are:

- a clear structuring of the official salary schemes according to the level of importance of the functions performed and impact on the final result of the NBU's activity;
- changing the balance between guaranteed and variable parts of salaries: from 20:80 to 80:20, respectively;
- the variable salary is paid solely on the basis of individual KPIs introduced as a part of the Performance Management System.

The new labor remuneration system helped simplify the compensation payment composition and made it transparent and clear.

HR management on the principle of One-Stop Service



Internal Communication Management

In 2015, in order to increase the level of communications and the employees' awareness of HR management activities, an HR web-portal was created and has been regularly updated. The main sections include: Performance Management, Knowledge Management, Talent Management, Cooperation with Higher Educational Institutions, Adaptation, and others. Currently, the HR portal is also the main platform for the annual performance evaluation, surveys, planning of training, etc.

To highlight the new procedures, ideas, and other products in the area of personnel management, in particular, the Performance Management System, a

video was created in 2015 with the participation of the NBU senior management. In addition, booklets on the Performance Management System, leaflets, animated materials, etc., were developed, which cover other new procedures and standards, and the project of rebranding of the NBU Training Center was initiated.

Priorities and Plans

The main priorities in 2016 are quality, efficiency, corporate culture, and personnel development.

Currently, a set of projects are being implemented that will strengthen the institutional capacity of the NBU for implementation of the Mission and priority tasks established by the Comprehensive Program.

INTERNATIONAL COOPERATION

» In 2015, the NBU applied new approaches to cooperation with international partners, which helped the NBU build up its presence on the international stage, attract an unprecedented volume of international technical and financial assistance, and pursue a systemic approach in performing implementation tasks under the EU-Ukraine Association Agreement.

Throughout 2015, active cooperation with leading international financial organizations (IMF, World Bank Group, the European Bank for Reconstruction and Development, Black Sea Trade and Development Bank, etc.) continued, including on the implementation of joint programs and projects aimed at improving the financial sector and crisis prevention, in particular:

- receipt of two tranches under the IMF Credit Facility Program within the framework of the EFF amounting SDR 4.73 billion;
- implementation of measures for preparation of the Second Programmatic Financial Sector Development Policy Loan project in cooperation with the World Bank was completed, resulting in receipt of USD 500 million by Ukraine in September;
- A Memorandum of Understanding was signed with the European Bank for Reconstruction and Development for local capital market development in Ukraine;
- as part of membership, the NBU Governor Valeria Gontareva and other representatives of the NBU took part in the Spring (17-19 April, Washington, USA) and Annual (9-11 October Lima, Peru) meetings of the IMF and World Bank, Annual meetings of the EBRD Board of Governors (14-15 May, Tbilisi, Georgia), the IMF and World Bank Constituency Meetings (29-31 May, Sofia, Bulgaria), and other international events.

In addition, a systemic approach was introduced to fulfilling the tasks of implementation of the Association Agreement between Ukraine and the European Union and implementation of the priorities of the Agenda of Ukraine – EU Association,

as well as the first meeting of *Cooperation in the Financial Sector* section was held as part of cluster 1 of the Sub-Committee on Economic and Other Sector Cooperation of the Ukraine – EU Association Committee.

The recommendations of the European Union for liberalization of the EU visa regime for Ukraine were successfully completed, and an active role was taken in the work of the monitoring mission of the European Commission.

The Loan Agreement and Memorandum of Understanding between the EU and Ukraine were signed for the receipt of third EU macro-financial assistance in the amount of EUR 1.8 billion for stabilization of the state's financial and economic system; the terms for receipt of two tranches of such assistance were fulfilled (the first tranche amounting EUR 600 million was received), as well as the fourth tranche of the first EU macro-financial assistance in the amount of EUR 250 million, which ensured revenues to the State Budget of Ukraine in the amount of EUR 850 million in 2015.

Ties with the European Central Bank were extended by creating a platform for joint activities and a better understanding of some aspects of the central banks of Ukraine and the EU.

The agreement with China on initiation of the practical implementation of a previously signed Bilateral Currency Swap Agreement for hryvnia/Chinese yuan between the NBU and the People's Bank of China (USD 2.4 billion) was achieved and the use of the newly signed three-year Bilateral Currency Swap Agreement for the Chinese yuan/hryvnia (up to UAH 54 billion and CNY 15 billion) continued.

A six-month Currency Swap Agreement for US dollar/hryvnia was signed and implemented between the NBU and the National Bank of Sweden (up to USD 500 million) and agreement with the top management of the National Bank of Sweden for conclusion of a new Agreement in 2016 was achieved.

The negotiations were started and a three-year Currency Swap Agreement for Ukrainian hryvnia/ Polish zloty was signed between the NBU and the National Bank of Poland (up to PLN 4 billion).

Negotiations on conclusion of the Bilateral Loan Agreement between the Swiss National Bank and the NBU were started, the signing of which is planned for 2016.

The NBU Governor Valeria Gontareva participated in XXXIII and XXXIV meetings of the Club of Governors of the central banks of Central Asia, the Black Sea Region, and the Balkans, held in Shanghai city (P.R. China) and Tbilisi (Georgia), respectively.

In addition, the NBU Governor took part in the 45th Annual Meeting of the World Economic Forum in Davos, Switzerland, and the meetings of the monetary committees of central banks of New Zealand and the Czech Republic.

The NBU has enhanced the attraction and use of international technical and expert assistance for the implementation of the Memorandum of Economic and Financial Policy with the IMF, the Association Agreement between Ukraine and the EU, the Comprehensive Program for Development of Ukraine's Financial Sector Until 2020 and the Monetary Policy Fundamentals for 2016-2020.

Furthermore, the NBU became a regular member of the International Network of Financial Education under the Organization for Economic Cooperation and Development (OECD/INFE) in 2015.



INTERNAL CONTROL SYSTEM

» During 2015, the regulator's internal control system was fundamentally rebuilt. All of its elements underwent qualitative changes – organizational systems of relevant subdivisions were revised, personnel was renewed, and new practices and performance standards were introduced. In particular, the focus of financial controlling was directed towards the issue of reasoned resource planning, centralization of the planning process, strengthening of control functions, and building of an effective management reporting system. A comprehensive risk management system now solves the problem of strengthening the protective mechanisms and internal control. In the area of internal audit, the transition from the audit of the structural subdivisions of the regulator to audit of the NBU's processes was implemented.

Financial Controlling

» In 2015, the NBU reformed all stages of the management cycle. In order to ensure adequate resources and information support of financial and economic decisions, the area of financial controlling grew rapidly.

To achieve this goal, in 2015, the Concept of Budget Process Reorganization was developed, the main elements of which are:

- establishment of the Budget Committee in order to discuss the draft budget of the administrative expenses of the NBU, ways to optimize and improve the efficiency of the resources of the NBU;
- integration of the budget process with the processes of strategic planning and project activities of the NBU;
- centralization of functions and delegation of the authorities for planning the costs for the NBU's activities to departments of the Central Office;
- implementation of additional tools for justification of the needs in drafting the budget of administrative expenses of the NBU;
- implementation of the tools for integration of the process of drafting the budget of administrative expenses of the NBU with the procurement planning process of the NBU.

In addition, the financial management reporting of the NBU was introduced.

When launching the management reporting, the experience of European national central banks, the world's best companies, and Ukrainian banks was studied.

All the processes were built from the scratch, the types and forms of reports were developed, the ranges of possibilities for the formation of the data repositories and databases of the NBU were extended through the functionality of MicroStrategy system, the algorithms for formation were developed, and the process of data integration and combination in the bank software systems was introduced.

As a result of the work performed, the management reporting package is formed monthly on the basis of more than 30 reports. Key management reports enable drawing up an expert review based on the performance of the NBU, making informed management decisions, monitoring their dynamics, and providing forecasts for the following data:

- key financial ratios of the balance sheet and administrative costs of the NBU;
- currency structure of the Foreign Reserves of Ukraine and off-balance sheet accounts;

- dynamics of the balance sheet of the NBU in the national currency and USD equivalent;
- detailing the dynamics of assets, liabilities, and equity of the NBU;
- types of portfolios of the NBU in terms of:
 - loans to banks and other borrowers;
 - Ukrainian securities;
 - securities of non-residents;
 - certificates of deposit;
 - dynamics of repayment of bad loans;

- obligations of the NBU to the IMF in terms of funding programs, etc.

The main achievement is the automated formation of the management reports that will have a positive impact on the efficiency.

Further plans for improving the quality of financial management reporting are expansion of the reporting spectrum, improvement of the quality of expert's evaluation of the performance results, and prediction and visualization of the results.



Risk management



In 2015, according to the IMF mission recommendations, the NBU's comprehensive risk management system underwent a major change strengthening protective mechanisms and internal controls.

Thus, in 2015 the NBU radically revised the risk management framework and the system for risk identification, evaluation, analysis, and management, taking into account the best international practices for achievement of the following objectives:

- improvement of the NBU's risk management quality in accordance with current international standards and best practices;
- ensuring the optimal risk distribution at the NBU, minimization of vulnerability and potential losses arising due to the impact of risk factors on the activities of the NBU in the domestic and foreign markets;
- separation of the function of creditor of last resort from the function of banking supervision to eliminate conflicts of interest;
- establishment of a specialized Committee to manage the credit risk, including the provision of emergency liquidity to Ukrainian banks, and take measures to manage the distressed assets;
- building a transparent and effective process of analysis and approval of credit decisions, as well as processes of monitoring and administering the liquidity support loans to Ukrainian banks;
- strengthening the internal controls embedded in the loan process.

The NBU plans to complete the implementation of a comprehensive risk management system in 2016.

In 2015, the diagnostics were implemented and deficiencies of the existing risk management system were identified, the reporting system on risk management was developed, and the following activity-specific measures and tools for risk management were introduced:

Credit risk management

In 2015, the project on improvement of the lending process effectiveness for the following modules was completed:

- 1) the process of analysis and approval of the decisions on lending to banks;
- 2) improving the effectiveness of the credit administration and monitoring processes.

Upgrading of procedures for distressed asset handling and foreclosure of collateral passed into the ownership of the NBU is on the final stage.

Under the project, the Reorganization Committee developed and approved the concept of analysis and approval of decisions on lending to banks and the monitoring concept. The new lending process provides for the separation of the supervision and lending functions, in-depth analysis of the bank's liquidity needs and its ability to repay the loan, a standardized monitoring process, and regular review. Furthermore, in order to manage the credit risk, the NBU established the Credit Committee as an advisory body in decision making.

The internal methodology for assigning the credit ratings of borrowing banks to increase the disclosure of the credit quality of financial assets and the information in accordance with IFRS was introduced.

In order to improve the method of calculation of the provisions for impairment of loans to the banks and other borrowers, changes were introduced to the internal NBU's procedures for financial risk assessment and compiling the information on provisioning and use of the NBU reserves for coverage of the financial risks related to impairment of assets.

The process for defining objective evidences of impairment under loans to borrowers was improved according to IFRS based on the results of

the analysis of information about the financial condition of the bank and all available data (including the auditor's report on review findings and audit of financial statements of the borrower under IFRS, the results of diagnostic study, etc.). In addition, a separate algorithm was introduced for evaluation and calculation of the provisions for impairment of loans for state banks and the Deposit Guarantee Fund, including documenting significant judgments and their justification.

Evaluation and monitoring of collateral

To protect the rights of the NBU as a lender, the concept of work of the NBU with independent evaluation entities was revised. For this purpose, the following steps were taken during the financial year:

- in order to verify the reports of independent evaluation of property/property rights, a structural subdivision was established, the functional responsibility of which is the property/property rights assessment quality review;
- uniform methodological approaches to the assessment of property and property rights were introduced;
- the function of the NBU's control and monitoring of the physical condition and the availability of collateral was strengthened;
- the methodology for determining discount factors and terms of discounting was developed taking into consideration the type of collateral; the factors are applied to the cost of collateral in the provisions calculation;
- a database for the fair value of the property pledged to the NBU was introduced in order to perform the necessary calculations.

Market risk management

In 2015, a number of measures were taken aimed at improving the efficiency of market risk management, including:

- a common methodology and procedure was introduced for estimating the fair value of securities owned by the NBU or accepted as collateral, as well as a methodology for

calculation of the diversified adjustment coefficients for securities accepted as collateral for obligations on refinancing loans and repo transactions;

- a methodology for building the yield curve for zero-coupon profitability was introduced for Ukrainian government bonds, and the regular publication of these yield curves on the official NBU website was launched;
- the development of a new concept for gold reserve management was started given the best world practices.

For the purpose of risk management of derivative financial instruments, a methodology and a procedure for calculation of the fair value of currency swaps were introduced.

Operational risk management

The NBU intends to implement proactive operational risk management linking the processes and projects to the need to control operational risks, shifting the focus to prevention of such risks. Therefore, the improvement of the operational risk management system was started.

The Committee on Operational Risks and Business Continuity Management of the NBU was established as a standing collegial body at the National Bank of Ukraine.

In addition, methodology was developed for operational risk and control self-assessment (RCSA) as a tool for identifying and assessing operational risks recommended by the Basel Committee on Banking Supervision.

A subject of special NBU attention is the timely response of NBU employees in the case of identification of operational risk events and taking measures to minimize/eliminate the impact of such events for the NBU. Thus, the NBU introduced a procedure for collecting and analyzing the data on internal operational risk events and developed its own analytical software for storage and processing of information on such events.

The NBU compiles the Business Continuity Plan (BCP) in order to minimize negative impact of emergencies on operation of the NBU and

the banking system as a whole and streamline recovery of normal activity.

In order to increase transparency, manageability, and controllability of the NBU, a project for implementing process management was started. One of the main objectives of this project is to improve the efficiency of NBU management processes by structuring the regulatory framework and identifying and evaluating of the links between processes, systems, and regulatory documents.

Handling distressed assets

In 2015, the concept and process of handling the NBU's distressed assets were developed and approved.

The process of mandatory approval by the Deposit Guarantee Fund (DGF) of the initial price, method and procedure of sale of such property was introduced. In 2015, nine Resolutions of the NBU Board were issued to approve sale by the DGF of 323 collateral items and 24 loans pledged to the NBU for the total amount of UAH 1.6 billion.

The NBU started foreclosure on 79 property and financial guarantors under refinancing loans totaling UAH 20.4 billion.

According to the results of activity in 2015, a total amount UAH 1.1 billion was received to the accounts of the NBU (the debts on loans issued to Terra Bank PJSC, Bank Demark PJSC, and UkrBusinessBank PJSC were fully repaid).



The NBU risk management in figures



1,136 collateral (mortgage) items revaluated in solvent banks



100 mortgaged items (field monitoring)



363 pledged property rights under loans granted, revaluated in solvent banks



323 items agreed for sale



19 changed processes



24 loans agreed for sale



614 collateral (mortgaged) items revaluated in insolvent banks



79 recoveries from guarantors



122 pledged property rights under loans granted, revaluated in insolvent banks



UAH 1.1 billion repayment of bad debts

Internal Audit



In 2015, the NBU’s internal audit framework underwent the following changes:

- International standards for the professional practice of internal audits acquired critical importance in the operation of the internal audit subdivision;
- the transition from the audit of the structural subdivisions of the regulator to auditing processes undertaken by the NBU was implemented;
- professional composition of the internal audit subdivision personnel was updated and enhanced.

Throughout 2015, the NBU Internal Audit Department assessed and contributed to the improvement of the processes of corporate governance, risk management, and internal control via audits, using a systematic and consistent approach.

In 2015, the transition to process auditing was completed. From now on, audits cover all NBU processes, while the core functions of the NBU are under a magnifying glass. Audits are carried out in accordance with International Standards for the Professional Practice of Internal Auditing adopted and published by the International Institute of Internal Auditors.

In 2015, 47 audits of risk management and internal control effectiveness in key areas of activity of NBU structural subdivisions were executed, including 36 scheduled audits (split between 8 complex audits and 28 limited scope audits) and 11 unscheduled audits. In addition, 13 sporadic inspections of cash and other valuables were done during 2015 under the supervision of auditors.

Furthermore, on the basis of defense mechanisms evaluation and in compliance with the Memorandum of Economic and Financial Policies, monetary data were audited, as recommended by the IMF.

These audits were carried out in 2015 according to the NBU Plan for the internal audit of the structural subdivisions, approved by the NBU Council and compiled on the basis of risk-based approaches to the selection of audited objects.

The NBU Council, the Governor, and members of the NBU Board were informed about the results of the internal audit of the NBU structural subdivisions.

Within the NBU framework of internal control, the internal audit acts as a third level control (inspects the efficiency of the first and second levels of internal control).

Internal control system of the NBU

First-level control	<ul style="list-style-type: none"> • The control is implemented by the employees of all NBU subdivisions • The employees are responsible for the control of risk inherent in their activities 	Permanent control
Second-level control	<ul style="list-style-type: none"> • The control is implemented by corresponding internal control services 	
Third-level control	<ul style="list-style-type: none"> • The control is implemented by the Internal Audit Department 	Periodical control



PART IV



CONSOLIDATED FINANCIAL STATEMENTS OF THE NATIONAL BANK OF UKRAINE FOR 2015

GOVERNOR'S ADDRESS

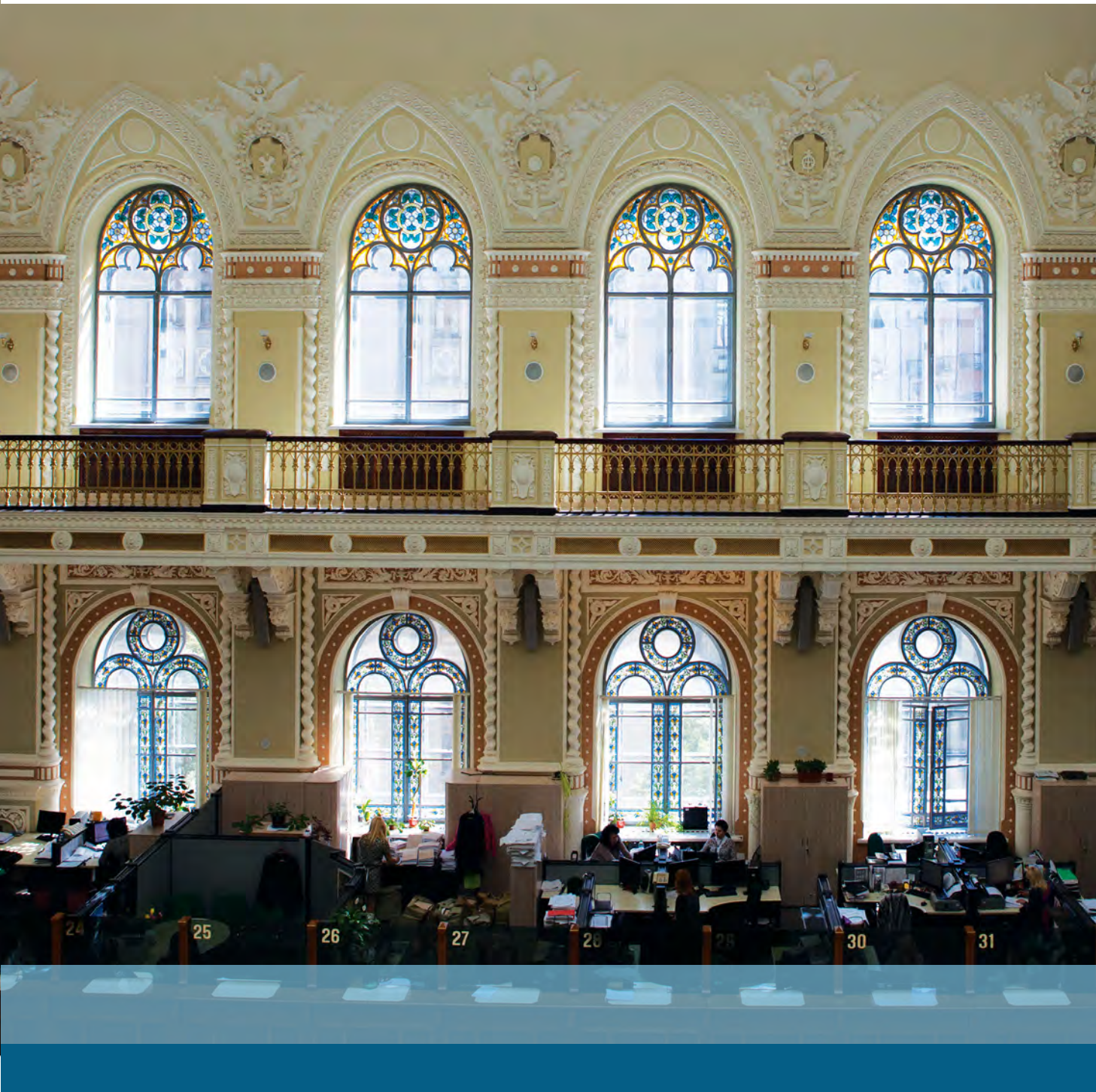
KEY POINTS: THE YEAR AT A GLANCE

MISSION, VISION AND VALUES

MANDATE OF THE NATIONAL BANK
OF UKRAINE

**PART IV. CONSOLIDATED FINANCIAL STATEMENTS
OF THE NATIONAL BANK OF UKRAINE FOR 2015**

KEY FINANCIAL REPORTING INDICATORS
OF THE NATIONAL BANK OF UKRAINE



The interior of the National Bank of Ukraine



BOHDAN LUKASEVYCH
Chief Accountant,
Director of the Accounting
Department

Where there's a will, there's a way – we managed to implement actual reforms in addition to introducing necessary amendments to legislation, including in the area of accounting.

Implementation of reforms in government institutions always faces a number of obstacles. The main one is that any change requires a regulatory support. A goal and the ways and means to achieve it can be defined, but it is impossible to begin moving until a new law is passed or a law in force is changed. However, if one have a goal, then nothing is impossible – we have managed to make necessary legislative changes and even more, to implement real reforms, including in the area of accounting.

In this line, the NBU has two blocks of responsibility. The first block — organization, methodology, and accounting in the NBU. The second block — organization of operating activities and development of the accounting methodology for the banks. These functions are defined by the Laws of Ukraine *On Accounting and Financial Reporting in Ukraine*, *On Banks and Banking*, and *On the National Bank of Ukraine*.

The NBU prepares its financial statements and keeps accounting records in compliance with International Financial Reporting Standards (IFRS) since 2012. The laws of Ukraine *On Accounting and Financial Reporting in Ukraine* and *On the National Bank of Ukraine* are the basis for this. Moreover, the NBU was probably the first organization in Ukraine to use IFRS 9 Financial Instruments (the part on classification of financial instruments) ahead of time, back in 2012. Thus, the NBU as the country's central bank has always tried to be a model for the banking system and, imposing requirements on banks, has set an example proving that accounting and reporting may and should be compiled in accordance with the best international practices and requirements to be clear to the world.

In 2015, the process of transition to IFRS was successfully completed, the Tax Code changed, and necessary adjustments as regards keeping accounting records in accordance with IFRS were made. In addition, based on the Law of Ukraine *On Measures to Facilitate Bank Capitalization and Restructuring*, the NBU attained the right not to put a bank to a category of problem or insolvent banks in the event of bank's failure to meet a number of economic ratios, providing the bank submitted a capitalization program or restructuring plan to the regulator. The above will bring to an end manipulations with reporting, through which banks tried to veil their losses, and open the door to transparent financial reporting in line with international standards.

Implementation of IFRS in Accounting of Ukrainian Banks

The full transition to recording the banks' transactions in line with International Financial Reporting Standards (hereinafter - IFRS) was completed in the reporting year.

Financial statements of banks prepared under IFRS are based on accounting data without the use of a method of transformation. It gives reliable, complete, and unbiased information about the bank's financial condition and performance for the relevant period.

Transformation adjustments for banks' transactions are used in the preparation of the financial statements under IFRS in case of any divergences between IFRS and laws of Ukraine. These transactions include precious metals transactions and the application of IAS 29 Financial Reporting in Hyperinflationary Economies to equity.

Accounting of the following items is brought into line with IFRS:

- transactions with securities and financial investments;
- preferred shares and investments in associates;
- transactions with banks' shareholders; formation and use of loan loss provisions;
- accrual of interest income on assets for which impairment is recognized.

The interim (quarterly) financial statements are brought in line with the requirements of IFRS 34 (Interim Financial Statement): the procedure for preparation and publication of the interim financial statements is changed.

Furthermore, banks have the opportunity to determine the composition and structure of the notes to the financial statements subject to the requirements of IFRS or use the Methodological Recommendations developed by the NBU on drafting the notes to the financial statements of banks in Ukraine.

The transition to IFRS in the accounting resulted in the creation of a single database for the formation of statistical, financial, and tax reporting.

KEY FINANCIAL REPORTING INDICATORS OF THE NATIONAL BANK OF UKRAINE

» Since 1998, the NBU has applied the IFRS principles and approaches to compilation of its financial statements, which have been fully compliant with IFRS since 2012.

The financial statements of the NBU are consolidated financial statements and include the assets, liabilities, and performance of the NBU, its subsidiaries and associated companies.

In 2015, the number of subsidiaries subject to consolidation significantly decreased, from four (University of Banking, Ukrainian Academy of Banking, Bank Television LLC, Clearing House for Contracts Traded on Financial Markets PJSC) to one (Clearing House for Contracts Traded on Financial Markets PJSC) by transferring the subsidiaries, in which the NBU performed non-core functions, to the Government of Ukraine (as part of the NBU restructuring).

As of the end of 2015, the NBU's balance sheet currency volumes increased by 1.5 times and reached UAH 849 billion.

In 2015, the NBU continued performance of its functions as a central bank of a country which forms

the corresponding profile of assets, liabilities, and equity.

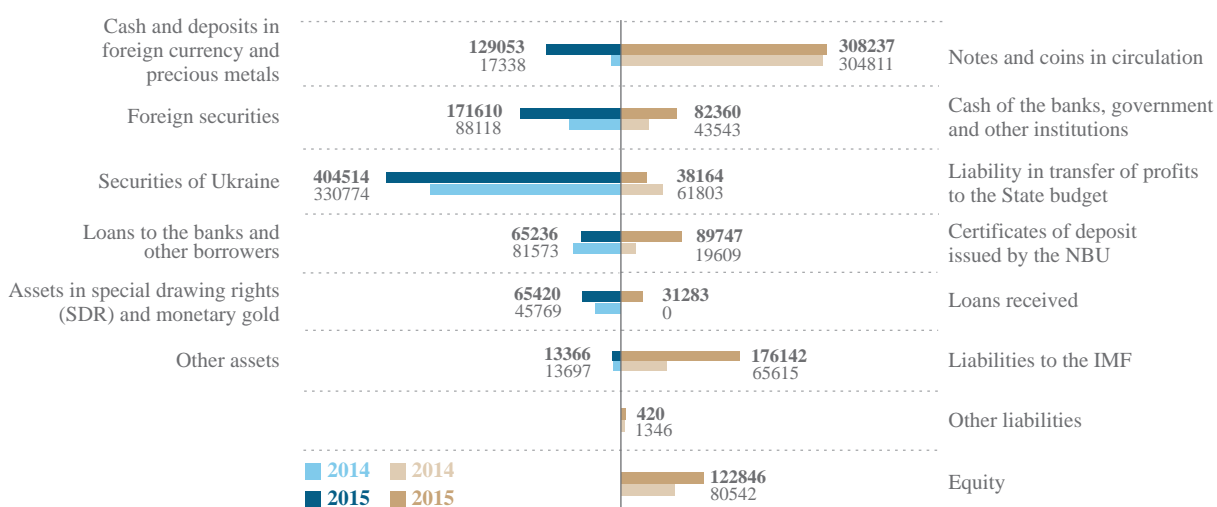
The main items of the assets of the NBU are:

- cash and deposits in foreign currency and precious metals;
- foreign securities;
- securities of Ukraine;
- loans to banks and other borrowers.

The main items of liabilities of the NBU are:

- notes and coins in circulation;
- cash of the banks, government, and other institutions;
- certificates of deposit issued by the NBU;
- liability in transfer of profits to the State Budget;
- liabilities to the IMF;
- loans received.

Composition and dynamics of the assets and liabilities of the NBU in 2014 – 2015, UAH million.

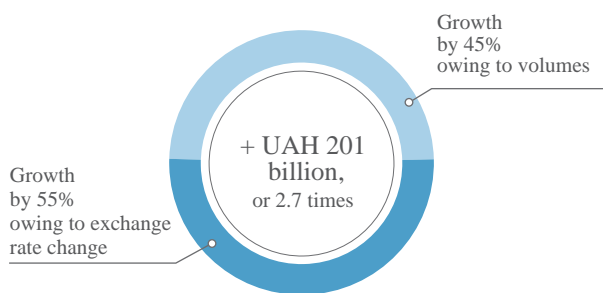


Throughout 2015, significant changes occurred in the assets and liabilities of the NBU.

The assets that represent the international reserves significantly rose as the result of the NBU policy, aimed at increasing them.

- International reserves rose in total from USD 7.5 billion at the end of 2014 to USD 13.3 billion at the end of 2015;
- The amount of funds and deposits in foreign currency increased 7.4 times to UAH 129 billion (equivalent to USD 5.4 billion);
- The portfolio of foreign securities increased almost 2 times and reached an amount of UAH 171.6 billion (equivalent to USD 7.2 billion).

International reserves



Increase in the items is stipulated both by absolute growth in volumes (purchase of securities (by 30% of the total increase) and placing the funds in fixed-term deposits (60% of the total increase), and the depreciation of the hryvnia's exchange rate to foreign currencies (in foreign securities - 70% of total increase, on fixed-term deposits - 40% of the total increase in their value).

Owing to the increase in the international reserves, the corresponding increase in liabilities of the NBU occurred, in particular, the liabilities to the IMF increased (2.7 times, reaching UAH 176 billion – the equivalent of USD 7.3 billion) due to receipt of funds under the EFF.



Liabilities to the IMF
+UAH 110.5 billion or 2.7 times

In order to manage the international reserves, the NBU expanded the range of transactions and cooperation with other central banks. As a result, in 2015 a new item – Loans Received – appeared in the Statement of Financial Condition, the amount of liabilities of which totaled UAH 31 billion (equivalent to USD 1.3 billion).



Loans received
+UAH 31 billion (new item)

Traditionally, the main item of the assets of the NBU denominated in the national currency is the securities of Ukraine, where the portfolio increased in 2015 by UAH 74 billion or by 22%, and reached UAH 405 billion. At the same time, due to the growth of assets that make up the international reserves, their share in the balance sheet currency has declined and was 47.6% compared to 57.3% in 2014. Government securities comprise 99% of all securities of Ukraine and are held for the receipt of cash flows under

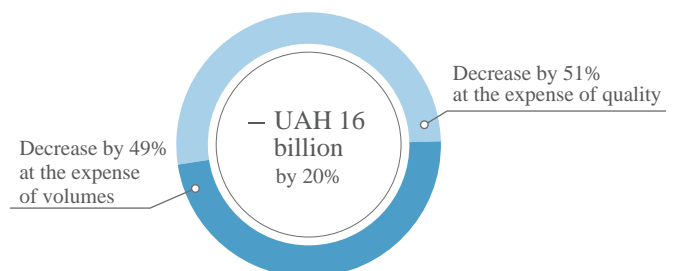


Securities of Ukraine
+UAH 74 billion or 22%

the terms of issue and recognized at amortized cost.

The credit portfolio of the NBU decreased by 20% due to two main factors. The cost of loans before deducting the reserves (indebtedness) decreased by UAH 8 billion to UAH 115.6 billion. The quality of assets also decreased: 53% of the portfolio consists of impaired loans, although the percentage of provisioning for impaired loans decreased from 74% in 2014 to 59% in

Loans to banks



In 2015, the NBU intensified transactions on the issue of its own certificates of deposit, the purpose of which involved removal of excess liquidity from the banking system and prevention of its pressure on the currency market. As a result, the volume of relevant liabilities of the NBU increased 4.6 times and reached UAH 89.7 billion.



Certificates of deposit
+UAH 70 billion or 4.6 times

Financial Results

The main sources of income of the NBU is the interest income and exchange rate differences - the results of the revaluation of monetary assets and liabilities due to changes in the official exchange rate.

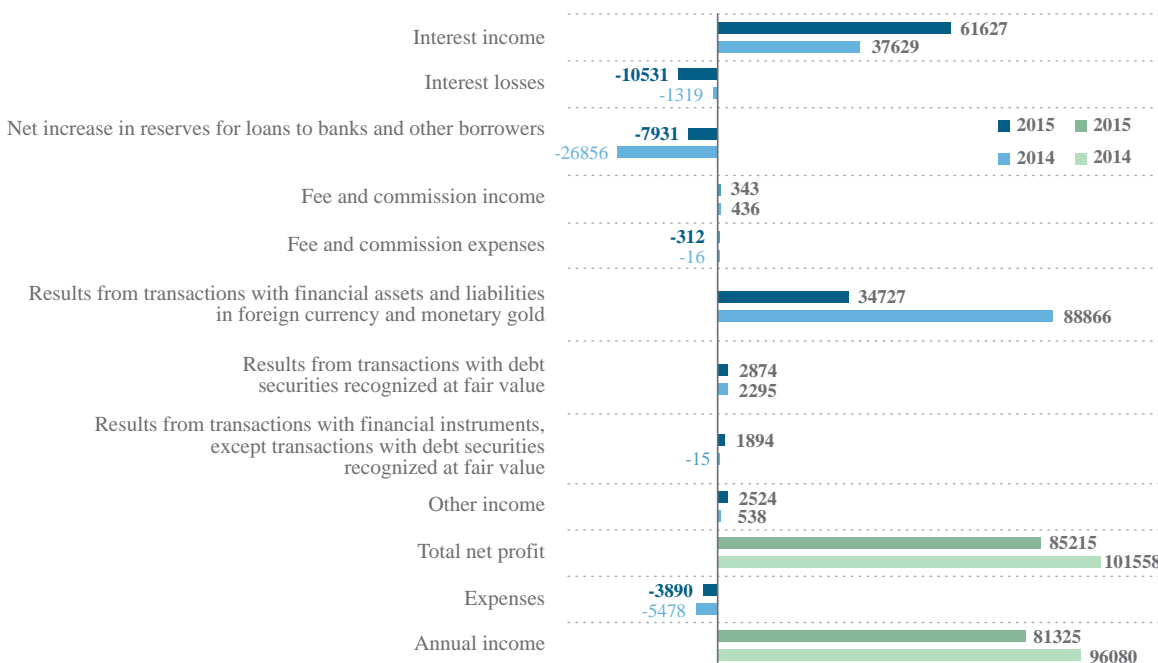
Total interest income, the main source of which is the securities of Ukraine and loans to banks, increased 1.6 times compared to 2014 and reached UAH 62 billion at much lower rates of growth of related assets items.



Net interest income
+UAH 34 billion or 4.6 times

Part of the effect from the increase in interest income levels out by the losses incurred due to the impairment of financial assets (loans to banks) in the amount of nearly UAH 8 billion. At the same time, these losses decreased by 3.4 times compared to 2014, when they accounted for almost UAH 27 billion.

Composition and dynamics of the financial results of the NBU in 2014-2015, UAH million



The sum of interest expenses increased 8 times and was UAH 10.5 billion in 2015, primarily due to rapid growth of the certificates of deposit issued by the NBU and the increase in liabilities to the IMF, with interest is accrued.

In general, the amount of net interest income (after deducting the losses of impairment) in 2015 was UAH 43 billion, which is 4.6 times higher than in 2014.

Changes in exchange rates have a significant impact on the performance of the NBU after the introduction of a flexible exchange rate. In particular, in 2014 the corresponding income amounted to nearly UAH 89 billion (with total revenue for the year amounting to UAH 96 billion) due to the depreciation of the hryvnia's exchange rate against foreign currencies and large volumes of exchange rate interventions by the NBU in 2014. In 2015, a positive result from changes in the exchange

rate decreased 2.6 times and amounted to nearly UAH 35 billion (with total revenue for the year amounting to UAH 81 billion), in particular due to the significant reduction of foreign exchange interventions.

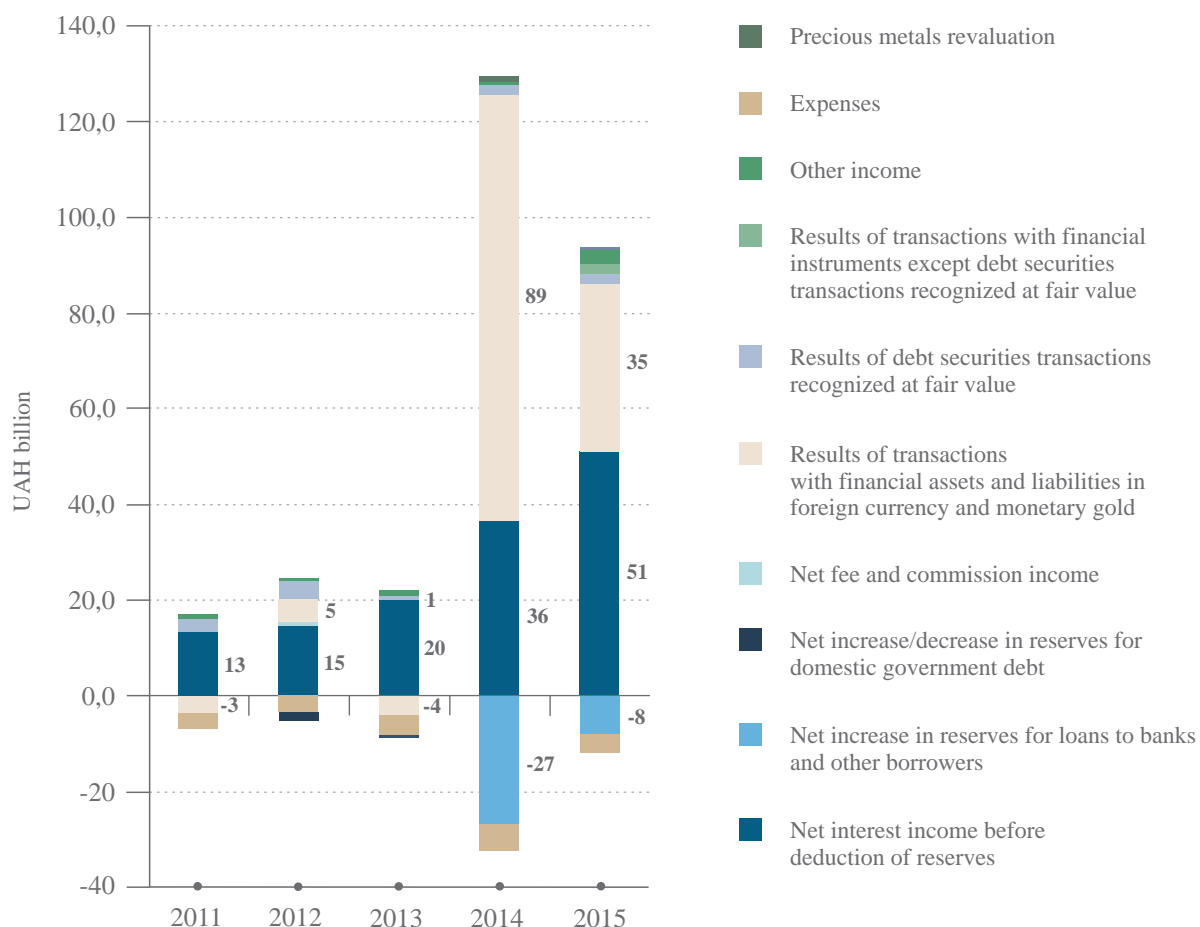


Result of exchange rate change

-UAH 54 billion or 2.6 times decrease

The NBU, as one of the largest holders of government bonds, took part in the program of debt restructuring for the external government bonds of Ukraine. As a result of the restructuring, the NBU recognized a loss in the amount of UAH 0.5 billion in part due to the results from transactions with financial instruments, other than transactions with debt securities recognized at fair value.

Structure and dynamics of profit and loss of the NBU in 2011 – 2015



The overall structure of assets for the last 6 years has changed in terms of a significant increase in the securities portfolio of Ukraine, represented mainly by government bonds.

In terms of NBU liabilities, they are significantly diversified with the traditional presence of basic type of liabilities, specific for the central bank as the issuer of the country – notes and coins in circulation. At the same time, the proportion of this item has decreased significantly in recent years and for the first time was less than half of the balance sheet total.

Equity of the NBU, which is the residual value of the assets after deducting all liabilities, is formed

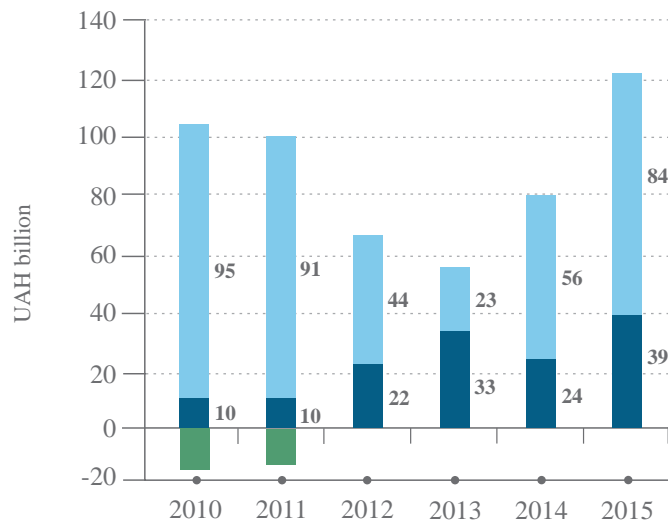
both by contributions from the state, and a deferred unrealized result of revaluation of assets and liabilities of the NBU, including as a result of exchange rate changes and part of the profits retained by the NBU in accordance with the law as reserves.

The structure of the financial results of the NBU has changed significantly over the past two years, particularly due to larger influence of the result of changes in exchange rates in connection with the action of a flexible exchange rate and a noticeable deterioration in the loan portfolio due to the aggravation of the economic and political situation in Ukraine.

Structure and dynamics of the liabilities of the NBU in 2010-2015

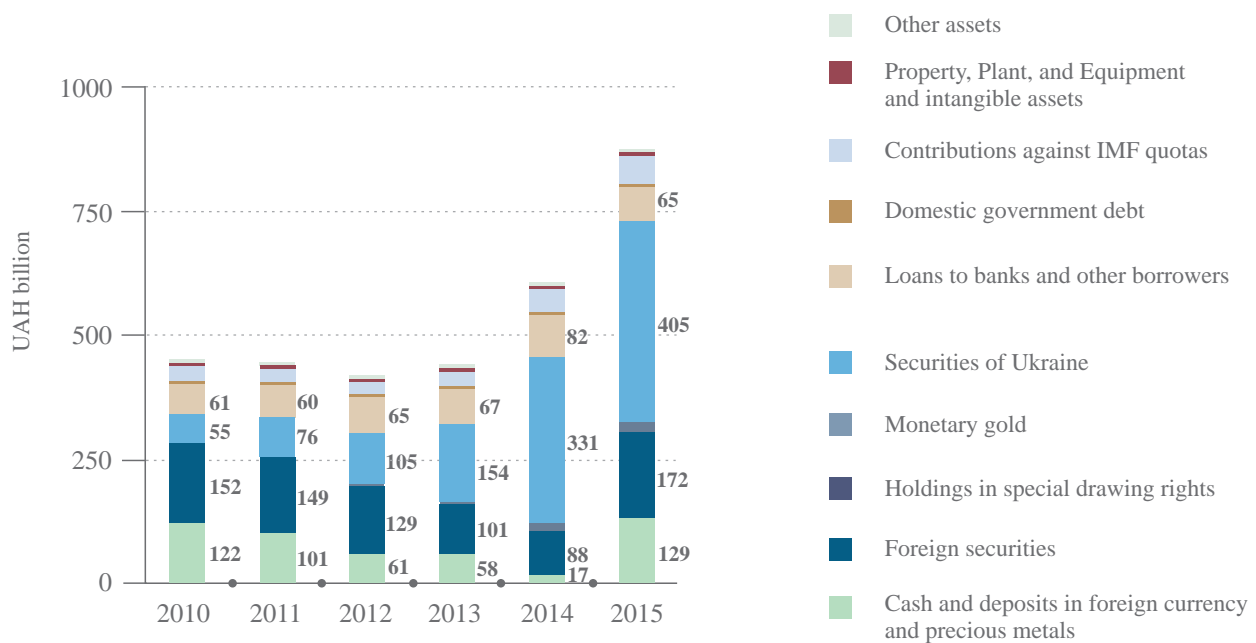


Structure and dynamics of the equity of the NBU in 2010-2015



- Authorized capital
- Assets and liabilities revaluation reserves
- Results of financial assets value adjustment in the course of initial recognition
- General and other reserves
- Uncontrollable share

Structure and dynamics of the assets of the NBU in 2010-2015

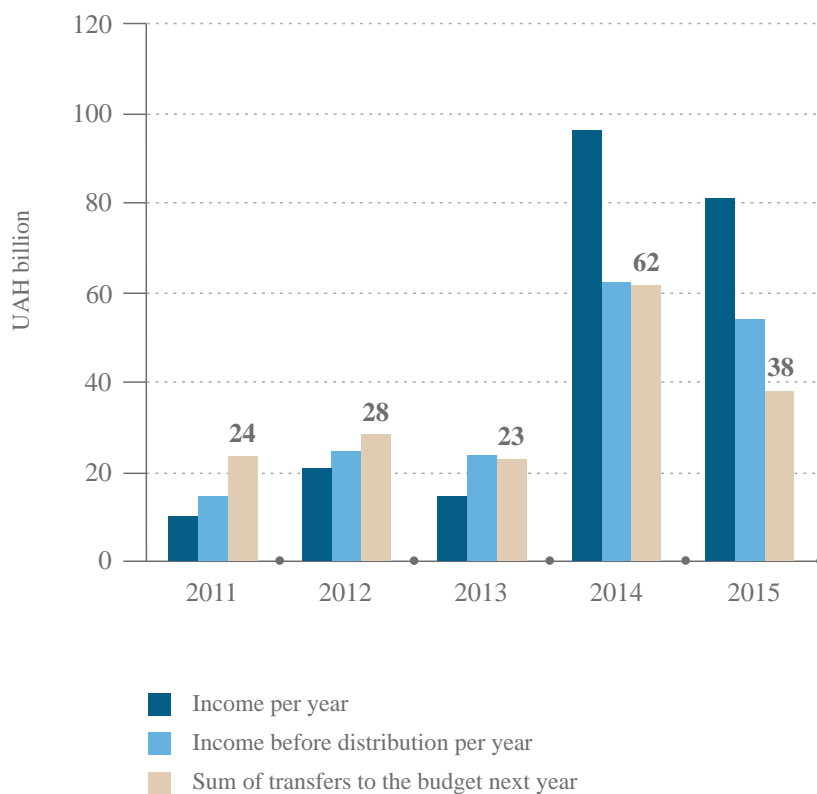


Payments to the State Budget

In 2015, the amount of transfers to the State Budget of Ukraine was nearly UAH 62 billion. The liabilities in payment of the part of the profit to the State Budget of Ukraine in 2016 are also recognized in excess of UAH 38 billion. The rest

of the NBU income before distribution amounting to UAH 16 billion will be allocated to general reserves of the NBU after the approval of the annual statements by the NBU Council.

Transfer of funds by the NBU to the State Budget of Ukraine in 2011-2015



National Bank of Ukraine

Consolidated Financial Statements
for the Year Ended 31 December 2015

These consolidated financial statements contain 69 pages.

Table of contents

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2015	1
Independent auditor's report	2
Consolidated statement of financial position	4
Consolidated statement of comprehensive income	5
Consolidated statement of cash flows	6
Consolidated statement of changes in equity	8
Notes to the consolidated financial statements	
1 Principal activities	9
2 Basis of presentation and a summary of significant accounting policies	11
3 Critical accounting estimates and judgments in applying accounting policies	24
4 Effect of economic environment on the consolidated financial position and performance of the National Bank of Ukraine	27
5 Funds and deposits in foreign currency and investment metals	28
6 Foreign securities	29
7 SDR holdings	33
8 Domestic securities	34
9 Loans to banks and other borrowers	37
10 Internal state debt	40
11 IMF quota contributions	41
12 Property and equipment and intangible assets	41
13 Other assets	42
14 Accounts of banks	43
15 Accounts of the government and other institutions	45
16 Certificates of deposit issued by the National Bank of Ukraine	45
17 Borrowings received	45
18 Liabilities to the IMF	46
19 Other liabilities	46
20 Liabilities on profit distribution to the State Budget of Ukraine	47
21 Capital management	48
22 Cash and cash equivalents	48
23 Interest income and expense	49
24 Fee and commission income and expense	49
25 Other income	50
26 Staff costs	50
27 Administrative and other expenses	50
28 Net increase in provisions	51
29 Financial risk management	51
30 Analysis of financial assets and liabilities by geographical concentration risk	53
31 Credit risk	55
32 Foreign currency risk	56
33 Interest rate risk	58
34 Liquidity risk	60
35 Off-balance sheet commitments and derivative financial instruments	63
36 Fair value of financial assets and liabilities	64
37 Presentation of financial instruments by measurement categories	66
38 Related party transactions	66
39 Disposal of subsidiaries	68
40 Disclosure of significant amounts by items of assets and liabilities	69
41 Subsequent events	69

National Bank of Ukraine
*Statement of Management's Responsibilities for the Preparation and Approval of
the Consolidated Financial Statements for the Year Ended 31 December 2015*

Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material aspects, the consolidated financial position of the National Bank of Ukraine and its subsidiaries as at 31 December 2015, 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 IFRS 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 IFRS 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 comply with IFRS;
- Maintaining 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 for the year ended 31 December 2015 were approved by management of the National Bank of Ukraine on 8 April 2016.

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



V. O. Gontareva,
Governor

8 April 2016



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

8 April 2016

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 2015, 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 2015, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.

Deloitte & Touche

8 April 2016

Certified Auditor

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

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



Natalia Samoilova

National Bank of Ukraine
Consolidated Financial Statements
Consolidated Statement of Financial Position as at 31 December 2015

	Notes	2015	2014
<i>(in UAH millions)</i>			
Assets			
Funds and deposits in foreign currency and investment metals	5	129,053	17,338
Foreign securities	6	171,610	88,118
SDR holdings	7	212	59
Monetary gold		19,577	14,366
Domestic securities	8	404,514	330,774
Loans to banks and other borrowers	9	65,236	81,573
Internal state debt	10	2,091	2,180
IMF quota contributions	11	45,631	31,344
Property and equipment and intangible assets	12	6,269	7,196
Other assets	13	5,006	4,321
Total assets		849,199	577,269
Liabilities			
Banknotes and coins in circulation		308,237	304,811
Accounts of banks	14	31,041	28,895
Accounts of government and other institutions	15	51,319	14,648
Liabilities on profit distribution to the State Budget	20	38,164	61,803
Certificates of deposit issued by the National Bank of Ukraine	16	89,747	19,609
Borrowings received	17	31,283	–
Liabilities to the IMF	18	176,142	65,615
Other liabilities	19	420	1,346
Total liabilities		726,353	496,727
Equity			
Statutory capital		100	100
General and other reserves		39,185	23,993
Revaluation reserves for assets and liabilities		83,526	56,420
Total equity	21	122,811	80,513
Non-controlling interest		35	29
Total equity		122,846	80,542
Total equity and liabilities		849,199	577,269

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 8 April 2016.

Governor



V. O. Gontareva

Chief Accountant – Director of
Accounting Department



B. V. Lukasevych

National Bank of Ukraine
Consolidated Financial Statements
Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2015

	Notes	2015	2014
<i>(in UAH millions)</i>			
Interest income	23	61,627	37,629
Interest expense	23	(10,531)	(1,319)
Net interest income, before provisions		51,096	36,310
Net increase in provisions for loans to banks and other borrowers	28	(7,931)	(26,856)
Net interest income, less provisions		43,165	9,454
Fee and commission income	24	343	436
Fee and commission expense	24	(312)	(16)
Net fee and commission income	24	31	420
Gains on operations with financial assets and liabilities in foreign currency and monetary gold		34,727	88,866
Gains on operations with debt securities at fair value		2,874	2,295
Gains/(losses) on operations with financial instruments, other than debt securities at fair value		1,894	(15)
Other income	25	2,508	538
Total net income		85,199	101,558
Staff costs	26	(1,785)	(2,248)
Costs related to production of banknotes, coins, souvenirs, and other products		(1,261)	(1,184)
Administrative and other expenses	27	(842)	(951)
Recovery/(impairment) of the National Bank of Ukraine's assets located in temporarily occupied territories	12, 13, 19	20	(1,042)
Net decrease/(increase) in provisions for other assets	28	1	(52)
Profit before income tax		81,332	96,081
Income tax expense of subsidiaries		(7)	(1)
Profit for the year		81,325	96,080
Other comprehensive income not to be reclassified subsequently to profit or loss:			
Revaluation of investment metals		22	1,042
Other comprehensive income for the year		22	1,042
Total comprehensive income for the year		81,347	97,122
Profit for the year attributable to:			
National Bank of Ukraine		81,319	96,079
Non-controlling interest		6	1
		81,325	96,080
Comprehensive income attributable to:			
National Bank of Ukraine		81,341	97,121
Non-controlling interest		6	1
		81,347	97,122

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 8 April 2016.

Governor

V. O. Gontareva

Chief Accountant – Director of
Accounting Department

B. V. Lukasevych

Director of Finance Control Department

O. V. Strynzha

The accompanying notes on pages from 9 to 69 form an integral part of these consolidated financial statements.

National Bank of Ukraine
Consolidated Financial Statements
Consolidated Statement of Cash Flows for the Year Ended 31 December 2015

	Notes	2015	2014 (restated)
		<i>(in UAH millions)</i>	
Operating activities			
Profit for the year		81,325	96,080
Adjustments for:			
Depreciation and amortization	12	577	588
Net increase in provisions for assets	28	7,930	26,908
Adjustment of interest income on impaired loans to banks	9	387	1,979
Change in accrued income		(5,030)	(5,119)
Change in accrued expense		(260)	(132)
Effect of FGLB restructuring		507	–
Loss on revaluation of derivative financial instruments		(1,467)	–
(Loss)/gain on revaluation of debt securities carried at fair value		(1)	855
Unrealized loss on revaluation of financial assets and liabilities in foreign currency and monetary gold		(37,084)	(88,969)
(Recovery)/impairment of the National Bank of Ukraine's assets located in temporarily occupied territories		(20)	1,042
Other non-cash movements		12	9
Net cash inflow before changes in operating assets and liabilities		46,876	33,241
Net decrease/(increase) in loans to banks and other borrowers		7,963	(45,109)
Repayment of internal state debt	10	132	132
Net decrease/(increase) in other assets		760	(9,862)
Accounts of banks on demand (other than interest accrued)		3,078	(19,445)
Accounts of government and other institutions		27,394	4,532
Net decrease in other liabilities		(921)	(1,246)
Net cash inflows/(outflows) from operating activities before transfers to the State Budget of Ukraine		85,282	(37,757)
Cash transfers to the State Budget of Ukraine	20	(61,803)	(22,807)
Net cash inflows/(outflows) from operating activities		23,479	(60,564)
Investing activities			
Net (increase)/decrease in term deposits placed		(17,380)	5,894
Net (increase)/decrease in foreign securities		(48,529)	79,519
Purchase of domestic securities		(91,581)	(162,456)
Sale and redemption of domestic securities		25,057	14,438
(Purchase)/sale of monetary gold		(126)	848
Investments in associates		2	–
Acquisition of property and equipment and intangible assets		(182)	(993)
Net cash outflows from investing activities		(132,739)	(62,750)

The accompanying notes on pages from 9 to 69 form an integral part of these consolidated financial statements.

National Bank of Ukraine
Consolidated Financial Statements
Consolidated Statement of Cash Flows for the Year Ended 31 December 2015 (Continued)

	Notes	2015	2014 (restated)
<i>(in UAH millions)</i>			
Financing activities			
Issue of banknotes and coins in circulation		3,426	42,941
Repayment of liabilities to the IMF		(9,259)	(10,332)
Proceeds from the funds received under the IMF's loans		63,811	13,940
Net change in term deposits (placed)/attracted		(448)	434
Net change in certificates of deposit issued by the National Bank of Ukraine		69,574	16,468
Other borrowings received		31,315	-
Net cash inflows from financing activities		<u>158,419</u>	<u>63,451</u>
Effect of changes in exchange rates on cash and cash equivalents		45,278	24,847
Net increase/(decrease) in cash and cash equivalents		94,437	(35,016)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the reporting year	22	<u>17,212</u>	<u>52,228</u>
Cash and cash equivalents at the end of the reporting year	22	<u>111,649</u>	<u>17,212</u>

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 8 April 2016.

Governor



V. O. Gontareva

Chief Accountant – Director of
Accounting Department



B. V. Lukasevych

National Bank of Ukraine
Consolidated Financial Statements
Consolidated Statement of Changes in Equity for the Year Ended 31 December 2015

	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 2014		<u>100</u>	<u>33,474</u>	<u>22,542</u>	<u>56,116</u>	<u>28</u>	56,144
Total comprehensive income for 2014		–	96,079	1,042	97,121	1	97,122
Realized gain/(loss) on investment metals disposed	20	–	119	(119)	–	–	–
Realized gain/(loss) on revaluation of securities and futures disposed	20	–	292	(292)	–	–	–
Allocation of unrealized gains/(losses) on revaluation of securities to revaluation reserves	20	–	(242)	242	–	–	–
Allocation of unrealized gains/(losses) on revaluation of assets and liabilities in foreign currency and monetary gold to revaluation reserves	20	–	(34,042)	34,042	–	–	–
Transfer of funds to the State Budget of Ukraine	20	–	(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	20	<u>–</u>	<u>(61,803)</u>	<u>–</u>	<u>(61,803)</u>	<u>–</u>	(61,803)
Balance as at 31 December 2014		100	23,993	56,420	80,513	29	80,542
Total comprehensive income for 2015		–	81,319	22	81,341	6	81,347
Disposal of subsidiaries	39	–	(879)	–	(879)	–	(879)
Realized gain/(loss) on investment metals disposed	20	–	9	(9)	–	–	–
Realized gain/(loss) on revaluation of securities and futures disposed	20	–	188	(188)	–	–	–
Allocation of unrealized gains/(losses) on revaluation of securities to revaluation reserve	20	–	(110)	110	–	–	–
Allocation of unrealized gains/(losses) on transactions with derivatives to revaluation reserve	20	–	(1,467)	1,467	–	–	–
Allocation of unrealized gains/(losses) on revaluation of assets and liabilities in foreign currency and monetary gold to revaluation reserves	20	–	(25,704)	25,704	–	–	–
Liability of the National Bank of Ukraine on profit distribution to the State Budget of Ukraine for 2015	20	<u>–</u>	<u>(38,164)</u>	<u>–</u>	<u>(38,164)</u>	<u>–</u>	(38,164)
Balance as at 31 December 2015		100	39,185	83,526	122,811	35	122,846

Approved and authorized for issue on behalf of the Board of the National Bank of Ukraine on 8 April 2016.

Governor



V. O. Gontareva

Chief Accountant – Director of
Accounting Department



B. V. Lukasevych

The accompanying notes on pages from 9 to 69 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 legislation, the primary function of the NBU is ensuring stability of the national currency of Ukraine. When performing its primary function the NBU must follow the priority of establishing and maintaining price stability in the country. The NBU must 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;

In its capacity as a monopoly, issue 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 with other central banks, international banks, and other credit institutions where cooperation is maintained among 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 securities, foreign currency valuables, and investment metals in the open market, sells commemorative coins made of precious and non-precious metals in 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 the functions of a depository for 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 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 expenditures for the next year, take decisions on allocation of distributable profits to increase the NBU’s statutory capital and create provisions to finance the investments aimed at supporting the NBU’s activities, approve annual financial statements of the NBU, report on fulfilment of the NBU’s budget of income and expenditures and distribution of profit for the reporting year, and 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 authority as defined by Ukrainian legislation.

The NBU’s structure includes the Central Administrative Office, standalone divisions (the Central Vault, the State Treasury of Ukraine, the Banknote Printing and Minting Works, the Team for International Credit Line Management, and the Banknote Paper Mill), and legal entities established by the NBU to support its activities solely within the NBU’s tasks and functions in accordance with the Law of Ukraine *On the National Bank of Ukraine* (as at 31 December 2014, the NBU’s system consisted of 25 regional offices within Ukraine, as well as 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).

1 Principal activities (continued)

The NBU's subsidiary is PJSC "SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS", with the NBU's shareholding in its statutory capital amounting to 77.79% (31 December 2014: 77.79%). As at 31 December 2014, the NBU's subsidiaries included the Ukrainian Banking Academy (Sumy), the Banking University (Kyiv), and LLC "Banking Television" (Kyiv), all of which were fully owned by the NBU (Note 39), and PJSC "SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS", with the NBU's share in its statutory capital amounting to 77.79%.

The statutory capital of the Settlement Center amounts to UAH 153.1 million and comprises ordinary registered shares with a 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 if settlements are carried out 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.

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 NBU.

The NBU has exercised judgement and analyzed whether it complies with the control criteria under International Financial Reporting Standards (hereinafter, "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 NBU has no control over the Polygraph Combine, so it is not consolidated in these consolidated financial statements.

The NBU has established a 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.

The NBU has analyzed whether it complies with the control criteria under IFRS 10 "Consolidated Financial Statements" in respect to the corporate non-government pension fund of the NBU. The NBU is a founder of the corporate non-government pension fund, but it is not exposed to risks, nor is it entitled to variable returns of its operations. In accordance with IFRS 10 the NBU has no control over the corporate non-government pension fund. Based on those judgments corporate non-government pension fund of the NBU is not consolidated in these consolidated financial statements.

At 31 December 2015 and 2014, investments of the NBU in associates included the German-Ukrainian Fund and Public Joint Stock Company "National Depository of Ukraine".

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 fur 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.

National Depository of Ukraine Public Joint Stock Company (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.

As at 31 December 2015, 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 (2014: 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).

2 Basis of presentation and a summary of significant accounting policies

The consolidated financial statements of the NBU have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (hereinafter, “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 a 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 (hereinafter, “UAH”), which is the functional and presentation currency. These consolidated financial statements of the NBU are presented in millions of UAH (hereinafter, “UAH millions”).

Basis of consolidation

These consolidated financial statements include the financial statements of the NBU and its subsidiaries as at 31 December 2015.

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

Existence of power over the investee;

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

Ability to use its powers over the investee to make an 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 accounted for as an equity transaction. 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 NBU loses control over the 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; the NBU reclassifies its share in the components previously recognized in other comprehensive income to profit or loss. If the subsidiary is disposed of by means of transfer of the control to the State as represented by the Cabinet of Ministers of other state bodies and organizations, the result of these operations is recognized in equity.

Intragroup balances, including income and expense on transactions between subsidiaries, are eliminated on 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 for 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 the 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.

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

Key valuation techniques

Depending on their classification, 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.

The market in which the NBU would normally enter into transactions 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 are 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 taken 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 storage 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 rate method of any difference between that initial amount and the maturity amount, and for financial assets, less any write-down for the impairment losses.

The effective interest rate 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 financial assets 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 the UAH to foreign currencies (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 rate*.

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

Monetary gold consists of the stocks of gold bars of the international standard not less than 995 probe held in the State Treasury of Ukraine and representing a part of international reserves. Transactions in monetary gold can be held between monetary control bodies of different countries, or those bodies and international financial institutions only.

Gold owned by the NBU, but not representing a part of international reserves, is not included into monetary gold.

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 and investment metals funds and deposits and recorded in the consolidated financial statements at the official exchange rate of the UAH to foreign currencies as at the date of the consolidated statement of financial position.

The principal official exchange rates of the 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 2015	31 December 2014
	(UAH)	(UAH)
USD 1	24.000667	15.768556
SDR 1	33.258458	22.845563
EUR 1	26.223129	19.232908
1 troy ounce of gold	25,440.707	18,827.656

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 the 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.

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 (hereinafter, "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 (hereinafter, "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.

*As at 31 December 2015 and 2014, the official exchange rate of UAH to USD was set at the exchange rate determined as average weighted rate of purchases and sales that had been established based on the data of the system of deal confirmation in the interbank foreign exchange market of Ukraine at the NBU and effective at the time of establishment. The official exchange rate of UAH to other currencies was established based on the information about the official exchange rate of UAH to USD and the daily fixing exchange rates of currencies to EUR of the European Central Bank. As at 31 December 2015, the official exchange rate of UAH to USD was set on each business day at 00:00 (Kyiv time) (as at 31 December 2014 the official exchange rate of UAH to USD was set on each business day after 12:00 (Kyiv time)).

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

Assets and liabilities denominated in SDR, including the IMF quota contributions, are translated into UAH at the NBU's official exchange rate of the UAH to the SDR at the date of the consolidated statement of financial position. The official exchange rate of the UAH to the SDR is calculated based on the information about the exchange rate of the SDR to the 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 purchases 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 them. Those funds are not related to derivative financial instruments, not quoted in the market, and repayable 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 short-term perspective.

The fair value of these securities is determined by reference to market quotations in the principal or most advantageous markets. Securities of this category may be reclassified to securities at amortized cost if a business model changes.

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.

Restructuring of debt securities

Restructuring of debt securities is presented in the consolidated financial statements by derecognition of the carrying amount as of the date of the restructuring of the previously recognized debt securities, and recognition of the fair value as of the date of the restructuring of the newly acquired financial instruments, when criteria for recognition and derecognition of the financial instruments, set out in the IFRS, are met.

The difference between carrying value of the previously recognized debt securities and fair value of the newly acquired financial instruments is recognized in the consolidated statement of comprehensive income for the period, in which such restructuring takes place.

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 the 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.

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

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.

Derivative financial instruments

Derivative financial instruments are represented by derivative securities, swaps, forwards, and futures contracts. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. All derivatives are recorded as assets if their fair value is positive and as liabilities if the fair value is negative.

Changes in the fair value of derivatives is included in the financial result of the consolidated statement of comprehensive income in the period when they arise.

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, other than derivative financial instruments;

Debt securities, equity instruments, and other financial 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.

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 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, equity instruments, and other financial 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;

The possibility of bankruptcy or other financial reorganization of the borrower or issuer;

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

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.

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 (current effective interest rate if the loans are granted at variable rates).

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 treated as impaired, and the respective impairment loss is calculated using the original effective interest rate determined before the renegotiation. If the loans are 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 and is included into consolidated statement of comprehensive income.

Repo transactions

Funds paid under the agreements for purchase and sale of securities with a subsequent repurchase obligation (hereinafter, "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 repo agreements are included in accounts of banks in the consolidated statement of financial position. The securities sold under repo 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 carried 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.

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. A 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.

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

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.

The 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 from 3 to 8 years and subsequently measured at historical cost, less amortization.

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 2015	31 December 2014
1 troy ounce of gold	25,440.707	18,827.656
1 troy ounce of silver	331.689	252.297
1 troy ounce of platinum	21,480.597	19,174.564
1 troy ounce of palladium	13,392.372	12,819.836

Unrealized gains or losses on revaluation of investment metals due to changes in the official exchange rate of the 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 the 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.

Investment and other precious metals are included in other assets in the consolidated statement of financial position.

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

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 the UAH into circulation in September 1996. The banknotes and coins in circulation are recorded as a 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.

Borrowings received

Borrowings received are recognized when the NBU receives funds from other central banks and begins using them on the payment basis. Initially, they are measured at fair value, less transaction costs, and subsequently measured at amortized cost using effective interest rate method. When the parties conclude mutual agreements for receipt of funds from other central banks, reverse future irrevocable commitments for granting the loan to the counterparty arise. The future irrevocable commitments for granting the loan are not recognized on balance until the date the central banks engaged in the agreement grant respective loans.

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.

Costs related to production of banknotes, coins, souvenirs, and other products

The NBU produces the Ukrainian national currency banknotes and coins. Expenses associated with 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.

Expenses associated with the production of commemorative coins made of precious metals and investment coins are recorded as an asset in the 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 the single contribution to mandatory state social security funds and transfers of contributions to the NBU's corporate non-state pension fund, as well as expenses incurred on personnel training and development, are recognized in the year in which the respective costs are incurred.

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

Corporate non-state pension fund of the NBU

The NBU has established a corporate non-state 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-state pension fund of the NBU.

The NBU acts as an administrator, asset manager, and custodian of the corporate non-state pension fund of the NBU.

Expenses for contributions to mandatory state social funds

Under Ukrainian legislation, the NBU makes a single contribution for 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 NBU 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 profit by the amounts of unrealized gains for the reporting period transferred to 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 20).

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 4, 7, and 10 percent of the NBU'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.

Revaluation reserve for assets and liabilities

According to the Law of Ukraine *On the National Bank of Ukraine*, unrealized gains on revaluation of foreign currency and monetary gold due to changes in the UAH to foreign currencies and monetary gold exchange rates during the reporting period, as well as unrealized gains on revaluation of securities and derivative financial instruments to their fair value, are 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 distributable profit in the respective reporting periods.

Provisions for subsequent expenses

Provisions for subsequent expenses of the NBU include the amounts provided to (Note 19):

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 NBU's institutions in prior years and carried forward to subsequent years, with reference to 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 employees, net of any amounts already paid;

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

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 and 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 and 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.

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.

Adoption of new and revised Standards and IFRS Interpretations applied in preparation of the NBU's consolidated financial statements

Revised IFRS and Interpretations that have become effective in 2015, with no material effect on the NBU's consolidated financial statements

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* (effective for annual reporting periods beginning on or after 1 July 2014, with earlier 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 be, but are not required to be, recognized as a reduction in the service cost in the period in which the related service is rendered.

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.

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

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.

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.

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, the 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 aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

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 value. 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.

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

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.

Depending on the approach applied, the transition may be performed simultaneously or on different dates for different requirements of the standard. The NBU adopted IFRS 9 early in respect of classification and measurement of financial assets and liabilities in preparation of the consolidated financial statements for 2012.

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 IFRS 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 NBU 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 2018, 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.

IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019, with early application permitted). IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* (effective for annual periods beginning on or after 1 January 2016, with early application permitted). 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.

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

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 1 *Disclosure Initiative Project* (effective for annual reporting periods beginning on or after 1 January 2016) include clarifications regarding practical application of the materiality principle.

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 options for accounting for its investments in subsidiaries, joint ventures, and associates in its separate financial statements.

Amendments to IFRS 10, IFRS 12, and IAS 28 *Investment Entities: Applying the Consolidation Exception* (applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early application permitted). The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture* (effective date deferred indefinitely, with early application permitted). The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual period from 01 January 2017). IAS 12 *Income Taxes* is amended to clarify the following aspects:

Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

The carrying amount of an asset does not limit the estimation of probable future taxable profits.

Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

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

Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 *Statement of Cash Flows* (Disclosure Initiative) (effective for annual period from 01 January 2017). IAS 7 is amended to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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.

Annual Improvements to IFRS 2012-2014 Cycle (effective for annual periods beginning on or after 1 January 2016)

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, 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.

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, 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.

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.

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

NBU's management has reviewed the financial assets carried at amortized cost and confirmed that:

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.

3 Critical accounting estimates and judgments in applying accounting policies (continued)

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 2015 and 2014, 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 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 properties 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.

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 the actual loss experienced.

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 2015 in the amount of UAH 3,440 million, respectively or decrease of loan impairment provisions in the amount of UAH 3,270 million, respectively (as at 31 December 2014 it would result in the increase of loan impairment provisions in the amount of UAH 1,862 million or decrease of loan impairment provisions in the amount of UAH 1,375 million, respectively).

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 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.

3 Critical accounting estimates and judgments in applying accounting policies (continued)

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 value. 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 38.

Change in the presentation

In preparing the consolidated financial statements for the year ended 31 December 2015, the NBU changed its approach to presenting cash and cash equivalents in the consolidated statement of cash flows in order to improve understandability and comparability with the best global practices of IFRS application in central banks. The NBU applied change in presentation retrospectively, as the change is change in accounting policies. The NBU changed its presentation of cash and cash flows as at 1 January 2015 and 2014 to bring it in conformity with presentation as at 31 December 2015:

Changes in the consolidated statement of cash flows

	Previously presented as at 31 December 2014	Restatement	Changed presentation as at 1 January 2015 <i>(in UAH millions)</i>
Cash and cash equivalents as at 1 January 2015	(28,706)	45,918	17,212
Operating activities			
Profit for the year	96,080	–	96,080
Change in accrued expense	231	(363)	(132)
Net cash inflow before changes in operating assets and liabilities	33,604	(363)	33,241
Net increase in other assets	(9,878)	16	(9,862)
Accounts of banks on demand (other than interest accrued)	–	(19,445)	(19,445)
Accounts of government and other institutions	–	4,532	4,532
Net cash outflows from operating activities before transfers to the State Budget of Ukraine	(22,497)	(15,260)	(37,757)
Net cash outflows from operating activities	(45,304)	(15,260)	(60,564)
Effect of changes in exchange rates on cash and cash equivalents	17,412	7,435	24,847
Net decrease in cash and cash equivalents	(27,191)	(7,825)	(35,016)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the reporting year	(1,515)	53,743	52,228
Cash and cash equivalents at the end of the reporting year	(28,706)	45,918	17,212

Changes in Note 22 “Cash and Cash Equivalents”

	Previously presented as at 31 December 2013	Restatement	Changed presentation as at 1 January 2014	Previously presented as at 31 December 2014	Restatement	Changed presentation as at 31 December 2015 <i>(in UAH millions)</i>
Accounts of banks on demand (other than interest accrued)	(47,416)	47,416	–	(28,451)	28,451	–
Accounts of government and other institutions	(4,036)	4,036	–	(14,648)	14,648	–
IMF accounts No. 1 and No. 2	(43)	43	–	(79)	79	–
Liabilities to the IMF in respect of SDR allocation	(1,006)	1,006	–	(1,861)	1,861	–
Employee’s current accounts	(1,242)	1,242	–	(879)	879	–

4 Effect of economic environment on the consolidated financial position and performance of the National Bank of Ukraine

During 2015, the NBU's monetary policy was carried out under extremely challenging conditions, both external and internal. Unfavorable conditions in markets where Ukraine's primary commodities are traded have been influencing further devaluation of the UAH to major foreign currencies. Ukrainian companies and banks continue to suffer from lack of funding from domestic and international financial markets.

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 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 has had a relevant effect on the total output and the state of the real economy of the country. In particular, the decline in real GDP in 2015 amounted to 9.9% (real GDP drop in 2014 was 6.8%) (<http://ukrstat.org>).

The external imbalances accumulated in previous years, alongside the depressive economic situation, as well as social, political, and military events, led to a significant deterioration in the market expectations, with a simultaneous increase in the demand for foreign currency. Thus, in 2015, the official exchange rate of the UAH to the USD changed by 52.2% (from UAH/USD 15.769 as at 31 December 2014 to UAH/USD 24.001 as at 31 December 2015).

The NBU extended its range of measures that were introduced in 2014 and aimed at limiting the outflow of foreign currency from the country, inter alia, a mandatory sale of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on usage of foreign currencies for settlement purposes, and limitations on remittances abroad.

In early 2015, the Government of Ukraine agreed with the IMF to a four-year program for a USD 17.5 billion loan aimed at supporting the economic stabilization of Ukraine. The program defines economic reforms that must be undertaken by the Government of Ukraine to reinstate sustainable economic growth in the mid-term perspective.

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. Growth in the consumer price index in 2015 was 43.3% (2014: 24.9%) (<http://ukrstat.org>).

In general, since the beginning of 2015, the NBU has modified its operating approaches to realization of monetary policies. The NBU has simplified the procedure for creating and holding of obligatory reserves by banks, in particular, through the use of unified ratios of obligatory provisioning and the role of the NBU's discount rate has been increased as the key rate in monetary policies through its close linkage to interest rates under active and passive transactions on regulating the liquidity of the banking system.

As at 31 December 2015, Ukraine's sovereign rating was "Caa3" according to Moody's rating agency, "B-/B" according to Standard & Poor's rating agency, and "CCC" according to Fitch rating agency (31 December 2014: Ukraine's sovereign rating was "Caa3" according to Moody's rating agency, "CCC-" according to Standard & Poor's rating agency, and "CCC" according to Fitch rating agency).

The Ukrainian economy displays the characteristics of an emerging market. These characteristics include the existence of a 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 2015, the NBU was obliged to repurchase and acquire title of ownership in respect of domestic securities in the amount of UAH 93,733 million at the nominal cost in order to regulate the monetary market and banks' liquidity (2014: UAH 183,290 million at the nominal value); and, during 2015, the NBU transferred funds to the State Budget of Ukraine in the amount of UAH 61,803 million (2014: UAH 22,807 million) (Note 20).

4 Effect of economic environment on the consolidated financial position and performance of the National Bank of Ukraine (continued)

Changes in operating and political environment in Ukraine in 2015

In 2015, political and economic relationships between Ukraine and the Russian Federation remained strained, which led to a significant reduction in trade and economic cooperation. On 1 January 2016, a free-trade element of Ukraine's association agreement with the European Union is coming into force. In late 2015, the Russian Federation denounced the free trade zone agreement within CIS in respect of Ukraine and further trade restrictions were announced by both countries.

As at 31 December 2015, allowance for 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 1,022 million, which was equal to 0.12% of the NBU's consolidated assets (31 December 2014: UAH 1,042 million, which was equal to 0.18% of the NBU's consolidated assets).

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

	2015	2014
	<i>(in UAH millions)</i>	
Financial assets		
Foreign currency cash	1,675	1,135
Demand deposits	11,167	10,186
Term deposits in foreign currency	113,420	6,017
Interest income accrued on deposits in gold	<u>1</u>	<u>–</u>
Total financial assets	126,263	17,338
Non-financial assets		
Term and demand deposits:		
in gold	2,790	–
	<u>2,790</u>	<u>–</u>
Total non-financial assets	<u>2,790</u>	<u>–</u>
Total funds and deposits in foreign currency and investment metals	<u>129,053</u>	<u>17,338</u>

Included in demand deposits as at 31 December 2015 were balances on special purpose accounts totaling to UAH 350 million (31 December 2014: UAH 178 million) maintained by the NBU under credit lines received from international financial institutions, and UAH 11 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 (2014: UAH 7 million) (Note 35).

As at 31 December 2015, term deposits in gold earned interest paid in USD.

As at 31 December 2015 and 2014 all foreign currency funds and deposits were neither past due nor impaired and were not collateralized.

All foreign currency funds and deposits are expected to be recovered within 12 months (31 December 2014: all foreign currency funds and deposits were expected to be recovered within 12 months).

A geographical concentration risk analysis of foreign currency funds and deposits is disclosed in Note 30, a credit risk analysis is disclosed in Note 31, a foreign currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is presented in Note 34.

6 Foreign securities

As at 31 December 2015, 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	95,465	5,480	100,945
denominated in EUR	–	1,808	1,808
Securities issued by EU states issuers:			
denominated in GBP	3,776	1,245	5,021
denominated in USD	8,902	18,719	27,621
denominated in EUR	7,772	13,865	21,637
Securities of other issuers:			
denominated in EUR	2,563	3,666	6,229
denominated in USD	1,206	6,699	7,905
denominated in AUD	323	–	323
Total debt securities	120,007	51,482	171,489
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	120,007	51,603	171,610

As at 31 December 2015 and 2014, all foreign debt securities were neither past due nor impaired.

In 2015, interest income earned on foreign debt securities and included in results from operations with debt securities at fair value in the consolidated statement of comprehensive income amounted to UAH 1,432 million (2014: UAH 1,548 million).

All foreign securities can be recovered within 12 months, except for equity instruments totaling UAH 121 million (31 December 2014: 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

Contribution to the share capital of the Black Sea Trade and Development Bank (hereinafter, the “BSTDB”) was made in accordance with the agreement on establishment of the BSTDB dated 30 June 1994.

As at 31 December 2015, the amount of the NBU’s contribution to the statutory 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 2014: SDR 24 million or UAH 120 million). The NBU’s share in the paid statutory capital of the BSTDB was 4% (31 December 2014: 4%).

Investment in the Inter-State Bank

The Inter-State Bank (hereinafter, the “ISB”) was established under a multilateral 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 statutory capital of the ISB is UAH 1 million and the share in equity equals 20.7%. The NBU does not have a significant influence on decisions of the ISB and does not earn any income from its activities.

6 Foreign securities (continued)

As at 31 December 2015, these investments were carried at fair value of UAH 121 million (31 December 2014: 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.

A geographical concentration risk analysis of foreign securities is disclosed in Note 30, a credit risk analysis for debt securities is disclosed in Note 31, a currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is presented in Note 34.

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

6 Foreign securities (continued)

Information on nominal value, yield to maturity, coupon income, and maturities of foreign debt securities as at 31 December 2015 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	3,974	95,388	0.2-1.4	0.25-2.75	Every 6 months	From 15 days to 3.1 years
Securities issued by EU states issuers:						
denominated in GBP	105	3,719	0.3-0.9	1.25-4.00	Every 6 months	From 22 days to 2.6 years
denominated in USD	371	8,904	0.6-1.8	0.375- 1.750	Every 6 months or annually	From 2.7 months to 4.2 years
denominated in EUR	292	7,657	-0.3-0.7	0.05-1.65	Annually	From 2.2 years to 8.8 years
Securities of other issuers:						
denominated in EUR	85	2,229	0.2	4.0	Annually	3.9 years
denominated in USD	50	1,200	0.9	1.0	Every 6 months	6.8 months
denominated in AUD	18	308	2.0-2.1	4.25-5.50	Every 6 months	From 5.6 months to 2.1 years
Bonds of international agencies, banks, and other issuers:						
Securities issued by US issuers:						
denominated in EUR	69	1,809	0.1-0.4	0.247- 0.308	Quarterly	From 1.1 years to 3.2 years
denominated in USD	229	5,496	1.2-2.4	1.00-2.45	Every 6 months	From 1.7 years to 4.7 years
Securities issued by EU states issuers:						
denominated in USD	780	18,725	0.6-2.0	0.3605- 5.000	Quarterly, every 6 months, or annually	From 29 days to 4.6 years
denominated in EUR	515	13,500	-0.2-0.6	0.000- 4.375	Quarterly or annually	From 15 days to 8.5 years
denominated in GBP	35	1,244	1.0	1.0	Annually	1.9 years
Securities of other issuers:						
denominated in USD	280	6,720	1.0-2.5	1.00-2.25	Every 6 months	From 6.8 months to 4.8 years
denominated in EUR	140	3,671	0.2-0.5	0.1-0.5	Annually	From 3 to 4.9 years

6 Foreign securities (continued)

Information on nominal value, yield to maturity, coupon income, and maturities of foreign debt securities 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 year
Securities issued by EU states issuers:						
denominated in GBP	95	2,325	0.4-0.9	1.00-2.75	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- 1.650	Annually or quarterly	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	1.40-1.95	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- 5.00000	Monthly, quarterly, every 6 months, or annually	From 15 days to 5.2 years
denominated in EUR	400	7,693	0.0-0.6	0.09-3.00	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- 2.7500	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

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 2015 and 2014 were as follows:

	2015	2014
	<i>(in UAH millions)</i>	
Balance of SDR holdings as at 1 January	59	128
Proceeds from the IMF		
in favor of the NBU	84,336	19,033
in favor of the Government	56,971	35,931
Purchase of SDR	32,393	40,999
Other proceeds and payments	340	89
Repayment of loan:		
on behalf of the NBU	(11,344)	(11,587)
on behalf of the Government	(17,212)	(28,758)
Payment of loan related fees and commissions	(1,217)	(536)
Translation of SDR to other foreign currencies		
in favor of the NBU	(83,931)	(18,713)
in favor of the Government	(56,971)	(35,931)
Payment of interest for the use of the IMF loan:		
on behalf of the NBU	(1,400)	(237)
on behalf of the Government	(1,816)	(438)
Payment of interest for the use of funds received under SDR allocation:		
on behalf of the NBU	(1)	(1)
on behalf of the Government	(19)	(20)
Translation differences	24	100
Balance of SDR holdings as at 31 December	212	59

In 2015, the account of SDR holdings received funds in the amount of SDR 4,728 million (UAH 141,307 million at the official exchange rate at the date of payment) under the Extended Funding Facility (hereinafter, the “EFF”) program. SDR 1,631 million (UAH 48,528 million at the official exchange rate at the date of receipt) and SDR 1,182 million (UAH 35,808 million at the official exchange rate at the date of receipt) were the funds of the first and second tranches under the new EFF 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 1,915 million (UAH 56,971 million at the official exchange rate at the date of receipt) were proceeds under the EFF program received in favor of the Government and translated to other foreign currencies and recorded on the State Treasury’s account with the NBU.

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. 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 the Government and translated to other foreign currencies and recorded on the State Treasury’s account with the NBU.

8 Domestic securities

As at 31 December 2015, 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	1,260	–	1,260
Denominated in foreign currencies:			
Domestic government loan bonds denominated in USD	765	–	765
Foreign government loan bonds denominated in USD	1,982	–	1,982
Total debt securities at fair value	4,007	–	4,007
Derivatives at fair value			
Government derivatives denominated in USD	418	–	418
Total derivatives at fair value	418	–	418
Debt securities at amortized cost:			
Denominated in the national currency:			
Domestic government loan bonds	397,824	–	397,824
Bonds of other government institutions	–	2,265	2,265
Total debt securities at amortized cost	397,824	2,265	400,089
Total domestic securities	402,249	2,265	404,514

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 (hereinafter, “DGLBs”) are issued by the Ministry of Finance of Ukraine with nominal value of UAH 1,000 each.

In 2015 the NBU purchased UAH-denominated DGLBs for the total value of UAH 2,096 million as a result of settlement of the amounts due from one borrower under refinancing loan.

In 2014 the NBU purchased UAH-denominated DGLBs for the total value of UAH 20,717 million as a result of acquisition of title rights in the process of restructuring of the NBU’s receivable from the Ministry of Finance for settlements made for extinguishing the Government’s tranche for settlements with IMF within Stand-by program and total value of UAH 2,101 million as a result of acquisition of title rights in order to satisfy the NBU’s claims as a purchaser under direct repo agreements and overnight loan.

In 2015, the NBU performed operations on restructuring debts under foreign government loan bonds (hereinafter, “FGLBs”) issued by the Ministry of Finance of Ukraine and denominated in USD and EUR with the nominal values of USD 100,000 and EUR 50,000 each (the nominal value of USD 130 million and EUR 83 million, respectively) with maturities in November 2016 and 2017 and coupon rates 6.75% and 6.58% and maturity in October 2015 and coupon rate 4.95% respectively through their exchange to USD-denominated FGLBs of the nominal value of USD 1,000 each with maturities in September 2019 – 2027 and coupon rate 7.75% and total nominal value of USD 182 million and government derivatives with the contingent amount of USD 44 million with maturity date in 2040 pursuant to Resolution of the Cabinet of Ministers of Ukraine No. 912 dated 11 November 2015 *On Performing Legal Acts in 2015 Regarding Government Debt and Debt Guaranteed by the State Aimed at Their Restructuring and Partial Write Off*. The loss on this restructuring amounts to UAH 507 million, which is presented in the item of *Gains/(Losses) on Transactions with Debt Securities at Fair Value* in the consolidated statement of comprehensive income.

Bonds of other government institutions include bonds issued by the State Mortgage Institution, with additional collateral in the form of a government guarantee for the issuer’s liabilities issued by the Cabinet of Ministers of Ukraine (hereinafter, “SMI bonds”), and bonds of the National Agency of Roads of Ukraine, with additional collateral in the form of a government guarantee for the issuer’s liabilities issued by the Cabinet of Ministers of Ukraine (hereinafter, “Ukravtodor bonds”). In 2015 and 2014, the NBU did not purchase any bonds of other government institutions. The SMI bonds have a nominal value of UAH 100,000 each. The Ukravtodor bonds have nominal value of 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 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;

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 2015 and 2014.

All domestic securities are expected to be recovered later than within 12 months from the reporting date, except for a nominal amount of DGLBs and bonds of other government institutions and accrued interest on debt securities totaling to UAH 46,134 million, and accrued interest on FGLBs totaling to UAH 55 million payable within 2016 (31 December 2014: all domestic securities were expected to be recovered later than within 12 months from the reporting date, except for a nominal amount of DGLBs and bonds of other government institutions and accrued interest on debt securities totaling to UAH 23,093 million, and a nominal amount of FGLBs and accrued interest on them totaling to UAH 1,631 million payable within 2015).

A credit risk analysis of domestic securities is disclosed in Note 31, a foreign currency risk analysis is disclosed in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is presented in Note 34. Information on the estimated fair value of domestic securities is presented in Note 36.

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	9,254	–	9,254
Denominated in foreign currency:			
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 currency:			
Foreign government loan bonds denominated in USD	1,932	–	1,932
Foreign government loan bonds 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

8 Domestic securities (continued)

Information on the nominal value, yield to maturity, coupon income, and maturities of domestic securities as at 31 December 2015 is presented in the table below:

	Total nominal value and contingent amount in UAH equivalent, in UAH millions	Total nominal value and contingent amount 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	1,250	–	19.58-20.60	9.50-17.00	Every 6 months	From 3.9 months to 3.8 years
Denominated in foreign currency:						
Domestic government loan bonds denominated in USD	720	30	4.07	8.75	Every 6 months	7.4 months
Foreign government loan bonds denominated in USD	2,140	89	9.93-10.29	7.75	Every 6 months	From 3.7 years to 10.7 years
Derivatives at fair value:						
Government derivatives	1,052	44				Up to 24.4 years
Debt securities at amortized cost:						
Denominated in the national currency:						
Domestic government loan bonds	387,993	–	9.53-22.00	9.50-17.60	Every 6 months	From 1.6 months to 13.8 years
Bonds of other government institutions	2,250	–	9.8-17.3	9.50-16.30	Quarterly	From 8 months to 2.7 years

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 equivalent, 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 months to 4.6 years
Denominated in foreign currency:						
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 currency:						
Foreign government loan bonds denominated in USD	2,050	130	10.1-10.3	6.58-6.75	Every 6 months	From 1.9 to 2.9 years
Foreign government loan bonds denominated in EUR	1,597	83	11.1	4.95	Annually	Up to 9.5 months

9 Loans to banks and other borrowers

Loans to banks and other borrowers by the purpose of their issue are classified as follows:

	2015	2014
	<i>(in UAH millions)</i>	
Loans granted to banks to support their liquidity:		
for stabilization of banking activities	103,111	97,483
under repo agreements	–	2,560
provided through tenders conducted by the NBU	2,727	13,314
other	10	10
Loans granted to Household Deposit Guarantee Fund	9,700	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	36	36
Other	2	2
Provision for impairment of loans to banks and other borrowers	(50,350)	(42,032)
Total loans to banks and other borrowers	65,236	81,573

9 Loans to banks and other borrowers (continued)

Loans granted for stabilization of banking activities, which are expected to be recovered later than within 12 months from the reporting date, amounted to UAH 34,246 million at the nominal value (31 December 2014: UAH 23,028 million).

In 2015 and 2014, 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 stabilization loans.

In 2015, 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	Other	Total
	<i>(in UAH millions)</i>			
Provision for loans to banks and other borrowers at the beginning of the year	41,994	36	2	42,032
Net increase in provision (Note 28)	7,931	–	–	7,931
Adjustment of interest income on impaired loans to banks	387	–	–	387
Provision for loans to banks and other borrowers at the end of the year	50,312	36	2	50,350

In 2014, 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	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 28)	26,856	–	–	26,856
Adjustment of interest income on impaired loans to banks	1,979	–	–	1,979
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

9 Loans to banks and other borrowers (continued)

Analysis of loans to banks and other borrowers as at 31 December 2015 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	Loans granted to Household Deposit Guarantee Fund and other	Total
<i>(in UAH millions)</i>				
Neither past due nor impaired, by credit rating:				
CC	16,835	–	–	16,835
Unrated	4,300	–	9,700	14,000
Total neither past due nor impaired	21,135	–	9,700	30,835
Individually impaired:				
not past due	21,178	–	–	21,178
overdue up to 30 days	17,104	–	–	17,104
overdue from 31 to 90 days	6	–	–	6
overdue from 91 to 180 days	7,062	–	–	7,062
overdue from 181 to 360 days	25,707	–	–	25,707
overdue over 360 days	13,656	36	2	13,694
Total individually impaired	84,713	36	2	84,751
Provision for loans to banks and other borrowers	(50,312)	(36)	(2)	(50,350)
Total loans to banks and other borrowers	55,536	–	9,700	65,236

The credit quality of loans granted to Household Deposit Guarantee Fund is limited by the sovereign credit rating of Ukraine as at 31 December 2015 and 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 disclosing credit quality above an analysis of overdue payments for loans that are individually determined to be impaired.

Analysis of loans to banks and other borrowers 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	Loans granted to Household 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 91 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

9 Loans to banks and other borrowers (continued)

Usually the loans were granted to banks to support their liquidity and were collateralized by securities, in particular – Ukrainian government bonds, municipal debt bonds, corporate bonds, including those placed under the Cabinet of Ministers of Ukraine’s guarantee, foreign currency, shares of the bank, as well as immovable property, title rights for loan agreements, and mortgage.

As at 31 December 2015, 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 14,009 million (as at 31 December 2014: UAH 14,449 million).

A geographical concentration risk analysis of loans to banks and other borrowers is disclosed in Note 30, a credit risk analysis is presented in Note 31, a foreign currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is presented in Note 34. The estimated fair value of loans to banks and other borrowers is presented in Note 36.

10 Internal state debt

	2015	2014
	<i>(in UAH millions)</i>	
Internal state debt in respect of loans to the Government in the national currency:		
1994–1996	2,091	2,180
Total internal state debt	2,091	2,180

Loans in the national and foreign currencies were granted by the NBU in the period of 1991–1996 to finance State Budget of Ukraine 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 national currency granted in the period of 1994–1996 totaling 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 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 2015, the internal state debt of Ukraine in the national currency was repaid in the amount of UAH 132 million (2014: UAH 132 million). Interest income on the loans to the Government in the national currency was recognized in the consolidated statement of comprehensive income.

As at 31 December 2015, 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 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).

As at 31 December 2015 and 2014 internal state debt is neither past due nor impaired and its credit quality is limited by the sovereign rating of Ukraine.

A geographical concentration risk analysis of the internal state debt is disclosed in Note 30, a foreign currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is presented in Note 34. Estimated fair value of the internal state debt is disclosed in Note 36.

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 IMF, the limits of access to financial resources of the IMF, and a participant's share in the allocation of SDR, the IMF'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 remaining amount of quota being credited to the IMF accounts No. 1 and No. 2 (Note 18). As at 31 December 2015, Ukraine's total quota in the IMF amounted to SDR 1,372 million, UAH 45,631 million at the end of the year official UAH/SDR exchange rate (31 December 2014: SDR 1,372 million, or UAH 31,344 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	Construc- tion in progress	Intangible assets	Total
	<i>(in UAH millions)</i>							
Net book value as at 1 January 2014	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)
Cost 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
Additions	–	–	438	1	3	7	58	507
Disposals	–	(1)	(1)	–	–	(27)	(1)	(30)
Disposals of subsidiaries	(650)	(4)	(53)	(10)	(5)	(112)	(2)	(836)
Transfers to other categories	3	–	74	–	3	(80)	–	–
Recovery of cost	–	1	8	–	–	–	–	9
Amortization (depreciation) charges in the current reporting period	(132)	(16)	(330)	(4)	(12)	–	(83)	(577)
Cost as at 31 December 2015	5,441	184	4,406	113	243	175	475	11,037
Depreciation as at 31 December 2015	(2,075)	(128)	(1,944)	(100)	(195)	(9)	(317)	(4,768)
Net book value as at 31 December 2015	3,366	56	2,462	13	48	166	158	6,269

The cost of fully depreciated property and equipment which are still in operation amounted to UAH 1,096 million as at 31 December 2015 (31 December 2014: UAH 1,015 million).

Property and equipment and intangible assets are non-current assets.

In 2015, the NBU recovered the cost of its property and equipment for the amount of UAH 9 million (in 2014, 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, the NBU recognized the impairment of non-current assets of the NBU in the amount of UAH 798 million in respect of its assets that are impossible to use).

The amount of the disposal of the property and equipment and intangible assets of the subsidiaries is adjusted for the amount of depreciation, calculated in accordance with the accounting policy of the NBU.

13 Other assets

	2015	2014
	<i>(in UAH millions)</i>	
Other financial assets		
Loans to NBU employees and other accounts receivable – neither past due nor impaired	462	537
Fair value of transactions with derivative financial instruments	1,467	–
Proprietary rights on loan agreements repossessed by the NBU	16	18
Other	25	462
Provision for other financial assets	<u>(28)</u>	<u>(54)</u>
Total other financial assets	1,942	963
Other non-financial assets		
Investment metals	1,954	1,869
Current tangible assets	535	429
Advance payments	98	449
Precious metals and jewelry	172	310
Commemorative and bullion coins, souvenirs, and other products	239	206
Investments in associates	66	95
Total other non-financial assets	3,064	3,358
Total other assets	5,006	4,321

Other financial assets are not secured.

Movements in provision for other assets were as follows:

	2015	2014
	<i>(in UAH millions)</i>	
Provision for other assets at the beginning of the year	54	11
(Decrease)/increase in provision during the year (Note 28)	(1)	52
Write-off of assets against provisions	<u>(25)</u>	<u>(9)</u>
Provision for other assets at the end of the year	28	54

At 31 December 2015 and 2014, investments in associates included the following:

Name of entity	Country of registration	Type of activity	2015		2014	
			Carrying amount	Interest (%)	Carrying amount	Interest (%)
<i>(in UAH millions)</i>						
German-Ukrainian Fund	Ukraine	Financial institution of special type	37	31.25	64	31.25
Public Joint-Stock Company “National Depository of Ukraine”	Ukraine	Depository activities	<u>29</u>	25	<u>31</u>	25
Total			66		95	

In 2015 and 2014 movements in investments in associates were as follows:

	2015	2014
	<i>(in UAH millions)</i>	
Carrying amount of investments at the beginning of the year	95	99
Share of the NBU in losses of associates	(27)	(4)
Dividends received	<u>(2)</u>	<u>–</u>
Carrying amount of investments at the end of the year	66	95

13 Other assets (continued)

Information on total assets and liabilities of associates as at 31 December 2015 and 2014 and their revenues, expenses, profits, and losses for the years ended 31 December 2015 and 2014 is provided below:

	2015	2014
	<i>(in UAH millions)</i>	
Total assets	736	697
Total liabilities	193	163
Total revenue	92	75
Total expense	178	81
Net loss for the year	(86)	(6)

As at 31 December 2015, 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, provision for the NBU's assets included carrying value of tangible valuables in the amount of UAH 18 million in respect of its assets that are impossible to use (in 2014: 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, provision for the NBU's assets included 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 is included in current tangible assets that include current tangible assets, precious metals and stones, cost of commemorative and bullion coins, souvenirs, and other products.

All other assets are expected to be recovered within 12 months, except for non-current receivables, investment metals, and investments in associates totaling UAH 2,223 million as at 31 December 2015 (31 December 2014: UAH 2,221 million).

A geographical concentration risk analysis of other financial assets is disclosed in Note 30, a credit risk analysis is disclosed in Note 31, a foreign currency risk analysis is presented in Note 32, and a liquidity risk analysis is presented in Note 34.

14 Accounts of banks

	2015	2014
	<i>(in UAH millions)</i>	
Correspondent accounts:		
in the national currency	27,698	27,528
in foreign currency	1	–
Term deposits:		
in foreign currency	–	444
Obligatory reserves kept on separate accounts with the NBU	–	265
Accounts of banks on special use terms:		
in the national currency	2,590	323
in foreign currency	752	335
Total accounts of banks	31,041	28,895

Term deposits in foreign currency are represented by accounts of banks in foreign currency received as collateral under refinancing loans.

Obligatory reserves are accounted for on correspondent accounts of banks in the national currency (2014: obligatory reserves were accounted for on separate accounts with the NBU and on correspondent accounts in the national currency). As at 31 December 2015, obligatory reserves were calculated on the basis of a simple average over a monthly period and had to be maintained at the level of 3%–6.5% of certain obligations of banks (as at 31 December 2014: 0%–15%).

14 Accounts of banks (continued)

As at 31 December 2015, in accordance with NBU regulations, banks had to provide and hold their obligatory reserves on their correspondent accounts with the NBU (as at 31 December 2014, in accordance with 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 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 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 of banks should create and retain reserve requirements on correspondent accounts with the NBU). In addition, as at 31 December 2015, 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% of the provision base calculated for the respective period (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% of the obligatory reserves created for the previous reserving period and maintained on the correspondent accounts with the NBU).

As at 31 December 2015, interest on obligatory reserves balances on correspondent accounts was not accrued (as at 31 December 2014, interest on obligatory reserves balances transferred by banks to a separate account with the NBU was accrued in the amount of 30% of the discount rate of the NBU, provided banks were in compliance with the procedure for creating and storing obligatory reserves. Interest on obligatory reserves balances on correspondent accounts was not accrued. As at 31 December 2014, interest on balances of obligatory reserves on a separate account with the NBU was not accrued).

As at 31 December 2015, banks were allowed, in order to meet their requirement relating to obligatory reserves created on correspondent accounts with the NBU, to use balances of cash on hand in the national currency accounted for on accounts *Banknotes and Coins on Hand of the Bank*, *Banknotes and Coins on Hand of the Bank's Outlets*, *Banknotes and Coins in Currency Exchange Outlets*, and *Banknotes and Coins in Automated Teller Machines* in the amount of 75% and balances outstanding on the accounts *Correspondent Accounts with Other Banks* and *Accounts of Banks in Settlements* opened with PJSC "SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS" in the amount of 100% of their carrying value (as at 31 December 2014, banks were allowed, in order to meet their requirement relating to obligatory reserves created on correspondent accounts with the NBU, to use DGLBs denominated in foreign currency in the amount of 10% of their carrying value in UAH equivalent and long-term DGLBs denominated in the national currency with a 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 PJSC "SETTLEMENT CENTER FOR SERVICING AGREEMENTS IN FINANCIAL MARKETS" in the amount of 100% of their carrying value).

Accounts of banks on special use terms as at 31 December 2015 and 2014 included provisions for funds attracted by banks in foreign currency from non-residents, funds placed for the purposes of statutory capital creation of newly established banks in the process of registration, accounts for making settlements by liquidation committees of banks in the process of their liquidation, and accounts opened for other purposes specified by the laws of Ukraine and the NBU's regulations.

As at 31 December 2015 and 2014, all accounts of banks were maturing within 12 months.

A geographical concentration risk analysis of due to banks is disclosed in Note 30, a foreign currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is disclosed in Note 34.

15 Accounts of the government and other institutions

	2015	2014
	<i>(in UAH millions)</i>	
Funds of budgets and budget entities	42,546	13,572
Household Deposit Guarantee Fund	8,344	819
Other	429	257
Total accounts of the government and other institutions	51,319	14,648

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 2015 and 2014, all accounts of government and other institutions were maturing within 12 months.

A geographical concentration risk analysis of due to government and other institutions is disclosed in Note 30, a foreign currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is disclosed in Note 34.

16 Certificates of deposit issued by the National Bank of Ukraine

Certificates of deposit issued by the NBU are 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. Yield on certificates of deposit is established by the NBU for each placement individually based on current aims of the monetary policy.

In 2015 and 2014, 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 2015, the nominal value of certificates of deposit issued by the NBU was UAH 1 million each, with the initial period of placement from 5 to 86 days and a weighted average yield of 19.77% per annum (31 December 2014: a weighted average yield of 10.31% per annum and the initial period of placement from 6 to 45 days). The weighted average yield for certificates of deposit placed in 2015 was 18.54% per annum, and the initial period of placement varied from 1 to 89 days (2014: a weighted average yield of 5.68% per annum and the initial period of placement varied from 1 to 85 days).

As at 31 December 2015 and 2014, all certificates of deposit issued by the NBU were maturing within 12 months.

A geographical concentration risk analysis of the certificates of deposit is disclosed in Note 30, a foreign currency risk analysis is disclosed in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is disclosed in Note 34. For the purposes of calculation of the indicative fair value of the certificated of deposit (Note 36), the NBU used yields on these instruments that were established as of the reporting date.

17 Borrowings received

In 2015, the NBU attracted funds under the Bilateral Agreement between the NBU and the People's Bank of China and an agreement between the NBU and the Central Bank of Sweden. As at 31 December 2015, the borrowed funds amounted to UAH 31,283 million.

As at 31 December 2015, borrowings received were maturing within 12 months.

When the NBU concludes bilateral agreements for receipt of funds from other central banks, reverse future irrevocable commitment for granting the loan to the counterparty arises. As at 31 December 2015 the amount of this commitment was UAH 68,393 million (Note 35).

A geographical concentration risk analysis of borrowing received is disclosed in Note 30, a foreign currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is presented in Note 34.

18 Liabilities to the IMF

	2015	2014
	<i>(in UAH millions)</i>	
IMF accounts No. 1 and No. 2	115	79
Liabilities to the IMF in respect of SDR allocation	2,709	1,861
Liabilities to the IMF on settlement of quota	45,515	31,265
Liabilities to the IMF in respect of purchases of SDR	<u>127,803</u>	<u>32,410</u>
Total liabilities to the IMF	<u>176,142</u>	<u>65,615</u>

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 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.

Liabilities to the IMF on settlement of quota represent the liability on settlement of quota contribution. As of 31 December 2014 the liability of the Ministry of Finance of Ukraine to the IMF on settlement of quota contribution included the debt obligation of the Ministry of Finance of Ukraine in the amount of UAH 2,511 million. In 2015, the liability of the Ministry of Finance of Ukraine to the IMF on settlement of quota contribution totaling UAH 2,511 million was substituted by the NBU's debt obligation.

Liabilities to the IMF in respect of purchases of SDR represent the loans received from the IMF by the NBU. During 2015, liabilities to the IMF increased at the cost of proceeds from the IMF in the amount of SDR 2,813 million (UAH 84,336 million at the official exchange rate at the date of the transaction or UAH 63,811 million at the IMF's annual exchange rate). 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 or UAH 13,940 million at the IMF's annual exchange rate) (Note 7).

During 2015, the NBU repaid its liability to the IMF for the amount of SDR 388 million (UAH 11,344 million at the official exchange rate at the date of the transaction or UAH 9,259 million at the IMF's annual exchange) (during 2014, for 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) (Note 7).

All liabilities to the IMF are non-current, except for balances on IMF accounts No. 1 and No. 2, the liability to the IMF in respect of SDR allocation, and interest accrued on liabilities to the IMF.

A geographical concentration risk analysis of liabilities to the IMF is disclosed in Note 30, a foreign currency risk analysis is presented in Note 32, an interest rate risk analysis is presented in Note 33, and a liquidity risk analysis is disclosed in Note 34.

19 Other liabilities

	2015	2014
	<i>(in UAH millions)</i>	
Other financial liabilities		
Current accounts of employees	53	879
Accounts payable	81	131
Provision for unused vacations	47	97
Total other financial liabilities	<u>181</u>	<u>1,107</u>
Other non-financial liabilities		
Provision for contingent liabilities	215	219
Taxes payable	21	8
Deferred income	3	12
Total other non-financial liabilities	<u>239</u>	<u>239</u>
Total other liabilities	<u>420</u>	<u>1,346</u>

19 Other liabilities (continued)

Provision for contingent liabilities comprises the provision 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, and the NBU's offices in Donetsk and Luhansk regions, considering the 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.

A geographical concentration risk analysis of other financial liabilities is provided in Note 30, a foreign currency risk analysis is provided in Note 32, interest rate risk analysis is provided in Note 33, and a liquidity risk analysis is provided in Note 34.

20 Liabilities on profit distribution to the State Budget of Ukraine

The NBU determines distributable profit in accordance with Article 5' of the Law of Ukraine *On the National Bank of Ukraine*. A part of distributable profit that is payable to the State Budget of Ukraine is transferred to the State Budget of Ukraine in the year following the reporting year upon confirmation of the annual financial statements by an external auditor and approval of the annual financial statements by the NBU's Council.

Total amount transferred by the NBU to the State Budget of Ukraine in 2015 was UAH 61,803 million (in 2014 – UAH 22,807 million).

Liabilities on profit distribution to the State Budget of Ukraine for 2015 is presented in the calculation below:

	2015	2014
	<i>(in UAH millions)</i>	
Profit for the year attributable to the National Bank of Ukraine per the consolidated statement of comprehensive income	81,319	96,079
Allocation of unrealized gains/(losses) on revaluation of assets and liabilities in foreign currency and monetary gold to revaluation reserves	(25,704)	(34,042)
Allocation of unrealized gains/(losses) on revaluation of securities to revaluation reserve	(110)	(242)
Allocation of unrealized gains/(losses) on transactions with derivatives to revaluation reserve	(1,467)	–
Realized gain/(loss) on investment metals disposed	9	119
Realized gain/(loss) on revaluation of securities and futures disposed	188	292
Adjustment for (positive)/negative results of subsidiaries	(21)	61
Distributable profit for the year	54,214	62,267
Retained earnings for the year	(16,050)	(464)
Recognition of liabilities on distribution to the State Budget at the cost of:		
part in distributable profit	38,164	61,803
Liabilities on profit distribution to the State Budget of Ukraine	38,164	61,803

Distributable profit for 2015 amounts to UAH 54,214 million, from which UAH 38,164 million are recognized as liabilities on profit distribution to the State Budget of Ukraine. Another portion of the distributable profit in the amount of UAH 16,050 shall be directed for increase of the general reserves up to 7% after approval of the annual financial statements of the NBU, report on fulfillment of the NBU's administrative expenses budget, and distribution of the distributable profit for the reporting year by the NBU's Council. This amount is presented as retained earnings for 2015.

21 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 Council.

Based on the results for the year 2007, the NBU Council approved an increase in the statutory capital of the NBU to UAH 100 million.

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 the NBU's 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 2015 was UAH 122,811 million (31 December 2014: UAH 80,513 million).

Objectives and policies of managing the components of the NBU's capital are defined by the respective internal regulations approved by the NBU's 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.

Revaluation reserve for assets and liabilities includes gain/(loss) arising on the revaluation of monetary assets and liabilities denominated in foreign currency, 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 own equity as at 31 December 2015 is presented as follows:

	2015	2014
	<i>(in UAH millions)</i>	
Statutory capital	100	100
General reserves	14,622	14,622
Other reserves	8,513	8,907
Retained earnings	16,050	464
Revaluation reserves for assets and liabilities	83,526	56,420
Total own equity	122,811	80,513

22 Cash and cash equivalents

	Notes	2015	2014
		<i>(in UAH millions)</i>	
Foreign currency cash	5	1,675	1,135
Demand deposits (other than gold, investment metals, and restricted funds)	5	10,806	10,001
Short-term deposits with maturities up to three months (other than gold, investment metals, and restricted funds)	5	98,786	6,017
Foreign securities with maturities up to three months	6	170	–
SDR holdings	7	212	59
Total cash and cash equivalents		111,649	17,212

23 Interest income and expense

	2015	2014
	<i>(in UAH millions)</i>	
Interest income		
Income on domestic securities carried at amortized cost	46,360	26,503
Income on loans to banks and other borrowers	14,884	10,708
Income on accounts and deposits in foreign currency	130	131
Income on internal state debt	180	187
Other	73	100
Total interest income	61,627	37,629
Interest expense		
Expense on operations with the IMF	(1,829)	(291)
Expense on accounts of banks	(33)	(127)
Expense on certificates of deposit issued by the NBU	(8,163)	(696)
Expense on borrowings received	(389)	–
Expenses on accounts of Household Deposit Guarantee Fund	(116)	(63)
Other	(1)	(142)
Total interest expense	(10,531)	(1,319)
Net interest income	51,096	36,310

Other interest income includes interest income on the loans to employees and other interest expense includes expenses on accounts of employees. During 2015, interest received and interest paid, which are included in cash flows from operating activities in the consolidated statement of cash flows, amounted to UAH 59,318 million (2014: UAH 31,409 million) and UAH 10,791 million (2014: UAH 1,088 million), respectively.

In 2015, income on loans to banks and other borrowers included income on impaired loans in the amount of UAH 8,506 million (2014: UAH 3,329 million), net of the adjustment of interest income on impaired loans to banks in the amount of UAH 387 million (2014: UAH 1,979 million) (Note 9).

24 Fee and commission income and expense

	2015	2014
	<i>(in UAH millions)</i>	
Fee and commission income		
Income on cash and settlement services	208	288
Income on services of electronic payment systems and electronic mail	131	141
Income on transactions with financial instruments	–	2
Income on valuables transportation services	2	2
Other	2	3
Total fee and commission income	343	436
Fee and commission expense		
Expense on transactions with the IMF	(265)	–
Expense on transactions with financial instruments	(47)	(15)
Other	–	(1)
Total fee and commission expense	(312)	(16)
Net fee and commission income	31	420

In 2015, due to early close of the Stand-by program with the IMF, the NBU recognized as expense the uncollectible fees on the purchase of funds within this program in the amount of UAH 265 million (SDR 8 million equivalent).

25 Other income

	2015	2014
	<i>(in UAH millions)</i>	
Gain on derecognition of financial assets when exchanged for new ones	782	74
Gain on sale of investment and commemorative coins, souvenirs, and other products	364	333
Fines, penalties, and forfeits received	129	23
Gain on disposal of property and equipment and intangible assets	16	2
Income on registration and licensing	5	4
Income on credit lines management	4	3
Excess of fair value of debt securities over transaction price paid	1,135	16
Other	73	83
Total other income	2,508	538

Gain on derecognition of financial assets when exchanged for new ones includes result on derecognition of loans to banks and other borrowers, when exchanged for new ones by substituting the borrower under the loan agreement.

Included in other income are income on sales of tangibles, providing social and consumer services, etc.

Excess of fair value of debt securities over transaction price paid that had been earlier included in the item “Other” in the amount of UAH 16 million is presented separately in these consolidated financial statements as “Excess of fair value of debt securities over transaction price paid” in this Note.

26 Staff costs

	2015	2014
	<i>(in UAH millions)</i>	
Payroll of staff	1,241	1,436
Single contribution for mandatory state social security and contributions to non-government pension funds	431	651
Financial aid and other social benefits	60	130
Other	53	31
Total staff costs	1,785	2,248

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.

27 Administrative and other expenses

	2015	2014
	<i>(in UAH millions)</i>	
Depreciation and amortization	350	420
Taxes, duties, and charges	61	129
Utilities and household expenses	122	122
Expenses for maintenance of non-current tangible and intangible assets	102	107
Telecommunication services and maintenance	26	38
Business trips	18	13
Fines and penalties paid	15	16
Stationery	2	3
Other	146	103
Total administrative and other expenses	842	951

27 Administrative and other expenses (continued)

Depreciation and amortization for 2015 exclude depreciation of UAH 227 million (2014: UAH 168 million) in respect of property and equipment used in the production of banknote paper, banknotes, coins, and other products. This portion of depreciation and amortization 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.

28 Net increase in provisions

	Notes	2015	2014
		<i>(in UAH millions)</i>	
Net (increase)/decrease in provisions for:			
Loans to banks and other borrowers	9	(7,931)	(26,856)
Other assets	13	1	(52)
Total net increase in provisions		<u>(7,930)</u>	<u>(26,908)</u>

29 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.

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 departments management and Risk Management Department of the NBU.

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 to 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 debtor or counterparty fails to perform its financial obligations to the NBU in accordance with the terms and conditions agreed. Credit risk may have the following symptoms:

Risk of a borrower's default – exposure to decreased income or capital of the NBU arising from the failure of a borrower to fulfill its obligations under debt financial instruments (i.e. risk that the borrower will not pay interest, fees and commissions, and principal at all);

Risk of loan collateral – risk that, as a result of collateral sale, lender's claims will not be satisfied in full;

29 Financial risk management (continued)

Settlement risk – exposure to decreased income or capital of the NBU arising from the failure of a counterparty to fulfill the obligations assumed on delivery of cash or base asset in the event that, before receiving relevant assets from the counterparty, the NBU transferred (assigned irrevocably to transfer) cash or base asset to the counterparty.

Credit risk management of the NBU is performed through the following actions:

- Defining the minimum acceptable credit ratings of counterparties;
- Setting long-term credit limits for outstanding amounts of foreign counterparties and securities issuers to the NBU (both general and by individual financial instruments);
- Setting short-term credit limits for outstanding amounts when dealing with domestic counterparty banks;
- Setting limits on standard duration (average maturity) level for the placements of funds by currency and type of financial instruments;
- Utilizing collateral and other types of security to perform liabilities;
- Diversifying the placement of funds into financial instruments with varied counterparties allowed to cooperate with in view of their risk exposure characteristics;
- Creating provisions of the NBU to cover credit risks related to the performance of its functions.

Market risks

Market risks are the risks that the NBU will incur losses as a result of adverse movements in market prices (exchange rates, interest rates, currency spreads, stock or commodity prices, etc.). Depending on the factors leading to losses, the NBU singles out the following types of market risks:

Foreign currency risk is the risk of losses due to unfavorable changes in foreign currency exchange rates;

Interest rate risk is the risk to incur losses due to adverse movements in interest rates;

Currency spread risk is the risk to incur losses as a result of the increase in credit spreads in the market.

Market risks are managed by the NBU by:

- Setting limits on absolute and relative indicators of specific types of market risks (including with reference to the standard selected);
- Diversifying them.

The following table summarizes sensitivity of the NBU's positions regarding foreign currency risk estimated on the assumption of 5% and 30% increase and decrease in the exchange rates of USD, EUR, SDR, and other currencies to UAH in 2015 and 2014, respectively. The analysis considers only foreign currency denominated amounts (except for non-monetary assets) available at the end of the period in translating of which the rates adjusted by 5% and 30% were applied in 2015 and 2014, respectively.

The effect of movements in exchange rates on profit or loss and distributable profit was as follows:

	31 December 2015		31 December 2014	
	+5%	-5%	+30%	-30%
USD	8,703	(8,703)	24,341	(24,341)
EUR	2,199	(2,199)	2,664	(2,664)
SDR	(6,497)	6,497	(10,240)	10,240
GBP	498	(498)	1,042	(1,042)
Other currencies	421	(421)	1,546	(1,546)

(in UAH millions)

The table below presents the sensitivity analysis to the NBU's positions regarding interest rate risk. The effect on profit or loss and distributable profit was as follows:

	31 December 2015		31 December 2014	
	+100 bp	-100 bp	+100 bp	-100 bp
Sensitivity of financial assets	1,893	(1,893)	866	(866)
Sensitivity of financial liabilities	(2,479)	2,479	(506)	506
Net impact on profit or loss and distributable profit +100 bp	(586)	586	361	(361)

(in UAH millions)

29 Financial risk management (continued)

Sources of interest rate risk are identified through the analysis of the existing structure of interest-bearing assets and liabilities. The NBU assesses interest rate risk by analyzing the sensitivity to fluctuations in interest rates, i.e. changes in the market value of instruments and portfolios as a result of movements in the yield curve by a certain number of basis points. In accordance with the methodology, the scenarios applied include a parallel shift of the whole curve by 1 percentage point (+/-100 basis points). The sensitivity of interest rate risk is estimated based on the scenario according to which all interest rate curves are treated as the ones changing in identical fashion irrespective of a financial instrument or currency. Estimates include the interest rate risk by all positions of the NBU for instruments with fixed and fluctuating interest rates as defined by a respective model.

Liquidity risk

Liquidity risk is defined as the risk when an entity has no available funds due to its inability to sell assets in the required quantity within the acceptable period of time without a significant deterioration of their value as a result of unfavorable situation in the market.

The NBU manages its liquidity risk by:

Maintaining certain regulatory levels of reserve assets in the form of cash on the NBU's correspondent accounts;

Maintaining the sufficient amount of highly liquid financial instruments that can be easily translated to cash;

Setting liquidity requirements to the NBU's assets.

A detailed analysis of exposures to the above risks is disclosed in Notes from 30 to 34.

30 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 2015 was as follows:

	Ukraine	OECD countries	IMF	Other	Total
	<i>(in UAH millions)</i>				
Financial assets					
Funds and deposits in foreign currencies	1,675	124,584	–	4	126,263
Foreign securities	–	171,609	–	1	171,610
SDR holdings	–	–	212	–	212
Domestic securities	404,514	–	–	–	404,514
Loans to banks and other borrowers	65,236	–	–	–	65,236
Internal state debt	2,091	–	–	–	2,091
IMF quota contributions	–	–	45,631	–	45,631
Other financial assets	239	1,467	236	–	1,942
Total financial assets	473,755	297,660	46,079	5	817,499
Financial liabilities					
Banknotes and coins in circulation	308,237	–	–	–	308,237
Accounts of banks	31,041	–	–	–	31,041
Accounts of government and other institutions	51,278	41	–	–	51,319
Certificates of deposit issued by the NBU	89,747	–	–	–	89,747
Borrowings received	–	12,003	–	19,280	31,283
Liabilities to the IMF	–	–	176,142	–	176,142
Other financial liabilities	167	14	–	–	181
Total financial liabilities	480,470	12,058	176,142	19,280	687,950
Net balance sheet position	(6,715)	285,602	(130,063)	(19,275)	129,549
Off-balance sheet commitments					
Commitments for granting loans to the foreign central banks	–	13,848	–	54,545	68,393
Net off-balance sheet position (Note 35)	–	(13,848)	–	(54,545)	(68,393)
Net position	(6,715)	271,754	(130,063)	(73,820)	61,156

30 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 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 35)	(2,790)	–	–	–	(2,790)
Net position	44,765	104,320	(34,212)	1	114,874

31 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.

	Credit rating	2015		2014	
		Amount	% in note line of financial assets	Amount	% in note line of financial assets
Financial assets – neither past due nor impaired:					
Funds and deposits in foreign currencies:					
Demand deposits	AAA	2,012	1.6	87	0.5
	AA+	52	0.0	1,107	6.4
	AA	2,322	1.8		
	AA-	3,387	2.7	4,583	26.4
	A+	520	0.4	2,916	16.8
	A	2,333	1.8	1,315	7.6
	A-	192	0.2	178	1.0
	BBB+	349	0.3		
Term deposits	AAA	19,677	15.6	3,438	19.8
	AA+	14,696	11.6	2	0.0
	AA-	8,096	6.4	2,442	14.1
	A+	27,359	21.7	–	–
	A	24,708	19.6	–	–
	A-	18,885	15.0	135	0.8
Foreign currency cash	Riskless	1,675	1.3	1,135	6.6
Total funds and deposits in foreign currencies:		126,263	100.0	17,338	100.0
Foreign securities:					
Government bonds	AAA	10,543	6.2	6,771	7.7
	AA+	101,034	58.9	44,082	50.1
	AA	394	0.2	–	–
	AA-	4,268	2.5	2,636	3.0
	A+	3,768	2.2	–	–
Bonds of international agencies, banks, and other issuers	AAA	18,683	10.9	10,400	11.8
	AA+	3,455	2.0	4,789	5.4
	AA	2,063	1.2	269	0.3
	AA-	9,654	5.6	13,353	15.2

31 Credit risk (continued)

Credit rating	2015		2014	
	Amount	% in financial assets	Amount	% in financial assets
			<i>(in UAH millions)</i>	
A+	13,099	7.6	4,151	4.7
A	1,311	0.8	1,546	1.8
A-	3,217	1.9	–	–
Total foreign debt securities	171,489	100.0	87,997	100.0
Domestic securities				
CCC	402,249	99.4	–	–
CCC-	–	–	325,722	98.5
Not rated	2,265	0.6	5,052	1.5
Total domestic securities	404,514	100.0	330,774	100.0
Loans to banks and other borrowers:				
Loans granted to banks to support their liquidity and loans granted to Household Deposit Guarantee Fund				
CCC	–	–	1,365	2.0
CC	16,835	54.6	46,728	69.8
Not rated	14,000	45.4	18,914	28.2
Total loans to banks and other borrower	30,835	100.0	67,007	100.0
Other financial assets				
AAA	236	12.2	–	–
A	1,467	75.5	–	–
CC	2	0.1	–	–
Not rated	237	12.2	963	100.0
Total other financial assets	1,942	100.0	963	100.0

Total amount of loans to five banks with the largest exposure outstanding as at 31 December 2015 was UAH 70,631 million (31 December 2014: UAH 68,572 million), or 61% (31 December 2014: 55%) 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 30,719 million as at 31 December 2015 (31 December 2014: UAH 24,515 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.

32 Foreign currency risk

As at 31 December 2015, the NBU had the following positions in currencies:

	UAH	USD	EUR	SDR	GBP	Other	Non-monetary	Total
Financial assets								
								<i>(in UAH millions)</i>
Funds and deposits in foreign currencies	–	93,683	19,435	–	4,930	8,215	–	126,263
Foreign securities	–	136,471	29,674	–	5,021	323	121	171,610
SDR holdings	–	–	–	212	–	–	–	212
Domestic securities	401,349	3,165	–	–	–	–	–	404,514
Loans to banks and other borrowers	65,236	–	–	–	–	–	–	65,236
Internal state debt	2,091	–	–	–	–	–	–	2,091
IMF quota contributions	–	–	–	45,631	–	–	–	45,631
Other financial assets	1,697	–	–	236	–	9	–	1,942
Total financial assets	470,373	233,319	49,109	46,079	9,951	8,547	121	817,499

33 Interest rate risk

As at 31 December 2015, 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 at the reporting date.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in banks of OECD countries	–	0.38	0.01	–	0.51	0.61	0.35
Foreign securities	–	0.99	0.16	–	0.77	2.07	0.84
SDR holdings	–	–	–	0.05	–	–	0.05
Domestic securities	13.59	8.39	–	–	–	–	13.56
Loans to banks and other borrowers	21.27	–	–	–	–	–	21.27
Internal state debt	8.66	–	–	–	–	–	8.66
Financial liabilities							
Household Deposit Guarantee Fund	5.75	–	–	–	–	–	5.75
Certificates of deposit issued by the NBU	19.77	–	–	–	–	–	19.77
Borrowings received	–	0.42	–	–	–	5.72	3.69
Liabilities to the IMF in respect of purchases of funds under credit facilities and SDR allocation	–	–	–	1.94	–	–	1.94

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 rates are reviewed on a weekly basis).

Interest rates used for accruing expenses on accounts of Household Deposit Guarantee Fund are not fixed, and their amounts correspond to weighted average interest rates on demand deposits of individuals in the national currency.

Interest on securities is accrued at both variable and fixed rates.

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. Considering the materiality principle and proximity of effective and nominal interest rate values as at 31 December 2014, interest rates, other than weighted average interest rate for the category of “Internal State Debt”, were calculated as weighted average contractual interest rates at the reporting date.

	UAH	USD	EUR	SDR	GBP	Other	Total weighted average interest rate (in %)
Financial assets							
Term deposits in banks of 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	8.66	–	–	–	–	–	8.66
Financial liabilities							
Household 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 and SDR allocation	–	–	–	1.05	–	–	1.05

33 Interest rate risk (continued)

Analysis of assets and liabilities by periods of interest rate repricing

The table below summarizes concentration of interest rates by periods of repricing categorized by the earlier of contractual repricing.

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 2015, 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	97,922	17,057	6,464	–	–	4,820	126,263
Foreign securities	7,001	15,736	46,723	99,097	2,932	121	171,610
SDR holdings	212	–	–	–	–	–	212
Domestic securities	3,033	9,247	34,793	220,181	136,842	418	404,514
Loans to banks and other borrowers	12,570	1,201	12,081	39,384	–	–	65,236
Internal state debt	–	26	78	418	1,569	–	2,091
IMF quota contributions	–	–	–	–	–	45,631	45,631
Other financial assets	5	15	23	68	48	1,783	1,942
Total financial assets	120,743	43,282	100,162	359,148	141,391	52,773	817,499
Financial liabilities							
Banknotes and coins in circulation	–	–	–	–	–	308,237	308,237
Accounts of banks	–	–	–	–	–	31,041	31,041
Accounts of government and other institutions	8,350	–	–	–	–	42,969	51,319
Certificates of deposit issued by the NBU	89,747	–	–	–	–	–	89,747
Borrowings received	31,283	–	–	–	–	–	31,283
Liabilities to the IMF	130,080	431	–	–	–	45,631	176,142
Other financial liabilities	–	–	–	–	–	181	181
Total financial liabilities	259,460	431	–	–	–	428,059	687,950
Net gap	(138,717)	42,851	100,162	359,148	141,391	(375,286)	129,549
Cumulative gap	(138,717)	(95,866)	4,296	363,444	504,835	129,549	

33 Interest rate risk (continued)

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
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	34,212	59	–	–	–	31,344	65,615
Other financial liabilities	–	–	–	–	–	1,107	1,107
Total financial liabilities	54,290	409	–	–	–	379,986	434,685
Net gap	(23,197)	50,518	38,406	274,764	120,663	(343,490)	117,664
Cumulative gap	(23,197)	27,321	65,727	340,491	461,154	117,664	

As at 31 December 2015, a portion of foreign securities bearing variable interest rates amounted to 5.09% of the total portfolio (31 December 2014: 13.38%).

34 Liquidity risk

For the purposes of liquidity risk estimation, financial assets are grouped by the period remaining as at the reporting date to repayment of the expected cash flows, and financial liabilities are grouped by the remaining contractual maturity at the reporting date.

The amounts of financial liabilities disclosed in the liquidity risk table below are the contractual discounted cash flows. Derivatives settled on a net basis are included at the net amounts expected to be paid. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

When the amounts payable are not fixed, the amounts disclosed are determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rates at the reporting date.

34 Liquidity risk (continued)

The NBU's liquidity risk position as at 31 December 2015 was as follows:

	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	102,742	17,057	6,464	–	–	–	126,263
Foreign securities	4,932	9,396	48,417	105,812	2,932	121	171,610
SDR holdings	212	–	–	–	–	–	212
Domestic securities	3,033	8,247	34,793	221,181	137,260	–	404,514
Loans to banks and other borrowers	1,414	1,201	12,081	39,384	–	11,156	65,236
Internal state debt	–	26	78	418	1,569	–	2,091
IMF quota contributions	–	–	–	–	–	45,631	45,631
Other financial assets	1,478	16	28	89	73	258	1,942
Assets to be received under forward contracts	19,175	–	–	–	–	–	19,175
Total financial assets	132,986	35,943	101,861	366,884	141,834	57,166	836,674
Financial liabilities							
Banknotes and coins in circulation	308,237	–	–	–	–	–	308,237
Accounts of banks	31,041	–	–	–	–	–	31,041
Accounts of government and other institutions	51,319	–	–	–	–	–	51,319
Certificates of deposit issued by the NBU	89,747	–	–	–	–	–	89,747
Borrowings received	31,283	–	–	–	–	–	31,283
Liabilities to the IMF	2,824	431	–	54,231	73,141	45,515	176,142
Other financial assets	107	13	–	1	–	60	181
Loan commitments under the loans to the foreign central banks	68,393	–	–	–	–	–	68,393
Assets to be delivered under forward contracts	17,697	–	–	–	–	–	17,697
Total future payments under financial liabilities	600,648	444	–	54,232	73,141	45,575	774,040
Liquidity gap arising from financial instruments	(467,662)	35,499	101,861	312,652	68,693	11,591	62,634
Cumulative liquidity gap	(467,662)	(432,163)	(330,302)	(17,650)	51,043	62,634	

34 Liquidity risk (continued)

The NBU's liquidity risk position as at 31 December 2014 was as follows:

	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	3,576	1,040	6,219	23,515	–	31,265	65,615
Other financial liabilities	1,107	–	–	–	–	–	1,107
Loan commitments	2,790	–	–	–	–	–	2,790
Total future payments under financial liabilities	375,086	1,390	6,219	23,515	–	31,265	437,475
Liquidity gap arising from financial instruments	(342,232)	41,779	38,209	256,249	120,663	206	114,874
Cumulative liquidity gap	(342,232)	(300,453)	(262,244)	(5,995)	114,668	114,874	

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.

The amounts presented in the following tables do not reconcile with the amounts presented in the consolidated statement of financial position as the information presented below includes analysis of financial liabilities by maturity, which represents total future payments under contracts (including interest), which are not recognized in the consolidated statement of financial position using effective interest rate method.

Settlement periods for undiscounted contractual cash flows for financial liabilities as at 31 December 2015 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	Maturity not defined	Total
<i>(in UAH millions)</i>							
Financial liabilities							
Banknotes and coins in circulation	308,237	–	–	–	–	–	308,237
Accounts of banks	31,041	–	–	–	–	–	31,041
Accounts of government and other institutions	51,319	–	–	–	–	–	51,319
Certificates of deposit issued by the NBU	89,747	–	–	–	–	–	89,747
Borrowings received	31,326	–	–	–	–	–	31,326
Liabilities to IMF	2,824	648	1,899	61,818	75,369	45,515	188,073
Other financial liabilities	107	13	–	1	–	60	181
Assets to be delivered under forward contracts	17,697	–	–	–	–	–	17,697
Loan commitments under the loans to the foreign central banks	68,393	–	–	–	–	–	68,393
Total future payments under financial liabilities	600,691	661	1,899	61,819	75,369	45,575	786,014

34 Liquidity risk (continued)

Settlement periods for undiscounted contractual cash flows for financial liabilities as at 31 December 2014 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	Maturity not defined	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	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

35 Off-balance sheet commitments and derivative financial instruments

Loan commitments

Loan commitments include the following:

	2015	2014
	<i>(in UAH millions)</i>	
Loan commitments under the loans to support banks' liquidity	–	2,790
Loan commitments under the loans to the foreign central banks	68,393	–
Total loan commitments	68,393	2,790

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. The possible amount of loss on commitments under the loans to support banks' liquidity is less than the total unused loan commitments since most undrawn commitments under the loans to support banks' liquidity 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 2015, the NBU had capital commitments in respect of acquisition, construction, and improvement of property and equipment and intangible assets totaling to UAH 94 million (31 December 2014: UAH 118 million).

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 2015, the NBU had 213 long stock-exchange interest futures contracts maturing in March 2016 the notional value of which equaled to UAH 1,111 million or USD 46 million, and 972 short stock-exchange interest futures contracts maturing from March 2016 to June 2019 the notional value of which equaled to UAH 5,387 million or USD 224 million (as at 31 December 2014, 138 long stock-exchange interest futures contracts maturing from March 2015 to September 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). Funds for settlements under futures transactions in the amount of UAH 11 million (2014: UAH 7 million) were measured at fair value and included in foreign currency funds and deposits as at 31 December 2015 (Note 5).

35 Off-balance sheet commitments and derivative financial instruments (continued)

In accordance with the general framework agreement of ISDA with the National Bank of Ukraine and Citibank, N.A. London, off-balance sheet liabilities and claims included funds under swap transactions. As at 31 December 2015, assets receivable amounted to UAH 19,175 million, and assets for delivery amounted to UAH 17,697 million.

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.

36 Fair value of financial assets and liabilities

The estimated fair value of financial assets and liabilities has 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 value. 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 2014: 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).

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 and IMF quota contributions, banknotes and coins in circulation, accounts of banks, accounts of government and other institutions, certificates of deposit issued by the NBU and liabilities to the IMF, other financial liabilities.

Fair value of those financial instruments for which no active market exists has 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.

For the purposes of estimating fair value of domestic securities for which no active market existed, the NBU used the income approach and:

For government bonds of Ukraine, Level 2 inputs (spot rates calculated on the basis of the zero-coupon yield curve built on the data of actually concluded and performed agreements of DGLBs using the Nelson-Siegel parametric model);

For bonds of other government institutions, Level 2 inputs (spot rates calculated on the basis of the zero-coupon yield curve built on the data of actually concluded and performed agreements of DGLBs using the Nelson-Siegel parametric model) and Level 3 inputs (risk premium on securities compared to DGLBs risk determined by using judgments at the level of 100 basis points which consider the availability of guarantees on behalf of the Government in respect of these securities).

As discount rates to determine the fair value of internal state debt in the national currency, the NBU used the weighted average NBU's rate for all instruments of refinancing.

As discount rates to determine the fair value of loans to banks and other borrowers, the NBU used the market rate (the NBU's discount rate) plus 1.5% as at the calculation date.

The discount rates used were as follows:

	2015	2014
	Discount rate, in % per annum	Discount rate, in % per annum
Debt securities in the national currency:		
Domestic government loan bonds	11.05–20.72	13.89–27.04
Bonds of other government institutions	18.52–21.48	14.05–29.49
Internal state debt in the national currency (1994–1996)	25.22	15.57
Loans to banks and other borrowers	23.50	14.00–21.00

36 Fair value of financial assets and liabilities (continued)

The following table summarizes the carrying amounts and estimated fair value of those financial assets not presented in the NBU's consolidated statement of financial position at their fair value:

	2015		2014	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<i>(in UAH millions)</i>				
Domestic securities in the national currency:				
Domestic government loan bonds	397,824	394,795	311,565	304,121
Bonds of other government institutions	2,265	2,085	5,052	4,809
in foreign currency:				
FGLBs denominated in USD	–	–	1,932	1,330
FGLBs denominated in EUR	–	–	1,544	1,053
Total domestic securities not carried at fair value	400,089	396,880	320,093	311,313
Internal state debt	2,091	1,014	2,180	1,431
Loans to banks and other borrowers	65,236	61,705	81,573	78,673

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 value is categorized were as follows:

	2015			2014		
	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 currency (futures)	11	–	–	7	–	–
Foreign securities at fair value	171,489	–	121	87,997	–	121
Domestic debt securities at fair value:						
in the national currency						
Domestic government loan bonds	–	1,260	–	–	9,254	–
in foreign currency						
Domestic government loan bonds denominated in USD	–	765	–	–	1,427	–
FGLBs denominated in USD	1,982	–	–	–	–	–
Government derivatives	418	–	–	–	–	–
Assets for which fair value is disclosed:						
Domestic securities in the national currency:						
Domestic government loan bonds	–	394,795	–	–	32,802	271,319
Bonds of other government institutions	–	–	2,085	–	2,763	2,046
in foreign currency:						
FGLBs denominated in USD	–	–	–	1,330	–	–
FGLBs denominated in EUR	–	–	–	1,053	–	–
Internal state debt	–	–	1,014	–	–	1,431
Loans to banks and other borrowers	–	–	61,705	–	–	78,673

36 Fair value of financial assets and liabilities (continued)

In 2015, there were no significant transfers of financial instruments between Level 1 and Level 2 of fair value hierarchy. 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 carried at fair value as of the reporting date that were included in Level 3 of the fair value hierarchy occurred during 2015 and 2014, 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 2015 and 2014.

37 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 2015:

	Assets measured at fair value	Assets measured at amortized cost	Total
			<i>(in UAH millions)</i>
Financial assets			
Funds and deposits in foreign currency	11	126,252	126,263
Foreign securities	171,610	–	171,610
SDR holdings	–	212	212
Domestic securities	4,425	400,089	404,514
Loans to banks and other borrowers	–	65,236	65,236
Internal state debt	–	2,091	2,091
IMF quota contributions	–	45,631	45,631
Other financial assets	1,467	475	1,942
Total financial assets	177,513	639,986	817,499

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 currency	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

38 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 the Government, state-controlled entities, key management personnel, and other related parties.

38 Related party transactions (continued)

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:

		2015			2014		
	Notes	Government and state-controlled entities	Associates	Other related parties	Government and state-controlled entities	Associates	Other related parties
							<i>(in UAH millions)</i>
Domestic securities	8	404,514	–	–	330,774	–	–
Loans to banks and other borrowers		25,206	–	–	34,889	–	–
Loans to Household Deposit Guarantee Fund	9	9,700	–	–	10,200	–	–
Provision for loans to banks and other borrowers		(4,174)	–	–	(4,843)	–	–
Internal state debt	10	2,091	–	–	2,180	–	–
Other assets		8	66	–	72	95	–
Accounts of banks		7,322	–	–	5,164	–	–
Accounts of government and other institutions		42,546	352	5	13,572	180	5
Accounts of Household Deposit Guarantee Fund	15	8,344	–	–	819	–	–
Liability on profit distribution to the State Budget	20	38,164	–	–	61,803	–	–
Certificates of deposit issued by the NBU		31,748	–	–	–	–	–
Other liabilities		5	–	–	5	–	–

Other related parties include Corporate Non-government Pension Fund of the NBU.

The terms of balances presented in the table above were as follows:

Short-term loans to state-owned banks (included in the loans to banks and other borrowers in the table above) as at 31 December 2015 bore contractual interest rates from 7.00% to 21.50% (31 December 2014: from 7.00% to 16.00%); these loans are repayable in the period from 1 to 5 years (31 December 2014: from 1 to 2 years);

Loans to Household Deposit Guarantee Fund as at 31 December 2015 bore interest rate at 12.5 %;

Accounts of government and other institutions were non-interest bearing;

Accounts of Household Deposit Guarantee Fund bore interest rates of 5.75% as at 31 December 2015 (31 December 2014: 5.04%);

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) bore interest rates from 18.40% to 19.50% as at 31 December 2014 (as at 31 December 2015, no direct “repo” transactions with the government bonds of Ukraine were held);

Refinancing loans granted through tender procedure as at 31 December 2014 bore interest rates from 10.00% to 19.50% (as at 31 December 2015, no refinancing loans were granted through tender procedure);

Obligatory reserve deposit balances transferred by state-owned banks to correspondent accounts with the NBU had no interest accrued (Note 14) (included in accounts of banks in the above table) (as at 31 December 2014, obligatory reserve deposit balances transferred by state-owned banks to separate accounts with the NBU bore interest rates of 4.20%).

38 Related party transactions (continued)

Terms of transactions with internal state debt and domestic securities are disclosed in the respective notes.

Income and expense items from transactions with related parties were as follows:

	Government and state- controlled entities	2015	Other related parties	Government and state- controlled entities	2014	Other related parties
		Associates			Associates	
<i>(in UAH millions)</i>						
Interest income	54,094	–	–	30,576	–	–
Interest expense	(1,795)	–	–	(95)	–	–
Fee and commission income	142	–	–	201	–	–
Other income	22	4	–	90	3	–
Staff costs	–	–	36	–	–	157
Other expenses	(46)	(28)	–	(40)	(3)	–
Net (decrease)/ increase in provisions	(669)	–	–	580	–	–

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 2015, short-term benefits (payroll) of key management personnel amounted to UAH 11.9 million (2014: UAH 12.9 million). As at 31 December 2015, outstanding balance of loans to key management personnel amounted to UAH 1 million (31 December 2014: UAH 1 million). Those loans are neither past due nor impaired.

39 Disposal of subsidiaries

In March 2015, pursuant to Resolution of the Cabinet of Ministers of Ukraine No. 247-p dated 18 March 2015 “On Transfer to the Ministry of Information Policy Authorities to Manage Government Corporate Rights of Limited Liability Company “Banking Television”, the NBU transferred its powers to manage government corporate rights of LLC “Banking Television” to the Ministry of Information Policy free of charge.

In September 2015, pursuant to Resolution of the Cabinet of Ministers of Ukraine No. 666-p dated 24 June 2015 “On Transfer of Integrated Property Complexes of Higher Educational Institutions to the Ministry of Education and Science”, the NBU transferred to the Ministry of Education and Science the Banking Academy (city of Sumy) and the Banking University (city of Kyiv) free of charge.

Assets and liabilities of the subsidiary, LLC “Banking Television”, as at the disposal date were as follows:

	LLC “Banking Television”	Amounts recognized as at the disposal date <i>(in UAH millions)</i>	
		Banking Academy (city of Sumy) and the Banking University (city of Kyiv)	Total
Assets			
Property and equipment and intangible assets	39	802	841
Other assets	25	51	76
Liabilities	<u>(2)</u>	<u>(989)</u>	<u>(991)</u>
Net assets disposed	62	(136)	(74)

39 Disposal of subsidiaries (continued)

The amount of property and equipment and intangible assets does not include adjustment of the depreciation in the amount of UAH 5 million, which was made in order to adjust depreciation in accordance with the accounting policy of the NBU (Note 12).

The amount of liabilities includes intragroup liability before the NBU in the amount of UAH 958, which was disposed of due to transfer of the state funds into management by another custodian free of charge.

Amounts of the profit and loss, cash and cash equivalents, cash flows from operating, investment and financing activities of the disposed subsidiaries of the NBU are immaterial for the respective periods of 2015.

The result of disposal of the subsidiaries amounted to UAH 879 million and was recognized in the equity of the NBU as change in General and other reserves.

40 Disclosure of significant amounts by items of assets and liabilities

As at 31 December 2015, 51% (31 December 2014: 61%) 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, 12% (31 December 2014: 7%) – by the US government coupon bonds, 3% (31 December 2014: 3%) – by the coupon bonds of the UK government and other EU countries, and 8% (31 December 2014: 15%) – by the loans to Ukrainian banks and other borrowers.

As at 31 December 2015, 45% (31 December 2014: 65%) of total consolidated liabilities of the NBU (other than promissory notes to the IMF on quota contribution) were banknotes and coins in circulation, 5% (31 December 2014: 6%) – accounts of banks, 5% (31 December 2014: 0%) – borrowings received, and 19% (31 December 2014: 7%) – liabilities to the IMF other than promissory notes to the IMF on quota contribution.

41 Subsequent events

In February 2016, Ukraine increase its quota to the International Monetary Fund by SDR 639.8 million – to SDR 2,011.8 million.

8 April 2016
City of Kyiv, Ukraine