

**PUBLIC JOINT STOCK COMPANY  
"FIRST UKRAINIAN INTERNATIONAL BANK"**

**Consolidated Financial Statements**

*Year ended 31 December 2013*

*Together with Independent Auditors' Report*

*Translation from Ukrainian original*

*Translation from Ukrainian original*  
**PUBLIC JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**  
**2013 CONSOLIDATED FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of  
PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

We have audited the accompanying consolidated financial statements of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" and its subsidiary (further – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statements of comprehensive income, of cash flows and 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of matter

We draw attention to Note 2 to the consolidated financial statements, which describes the political unrest that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in Note 2 could adversely affect the Group's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

*Ernst & Young Audit Services LLC*

21 March 2014

*Translation from Ukrainian original*  
**PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**  
**Consolidated Statement of Financial Position for 2013**  
*(in thousands of Ukrainian hryvnias)*

	Notes	2013	2012 (restated, Note 3)	2011 (restated, Note 3)
<b>Assets</b>				
Cash on hand and in transit	6	1,336,850	718,992	645,402
Balance with the National Bank of Ukraine	7	1,610,912	1,544,400	2,108,735
Due from other banks	8	2,122,432	2,305,429	4,535,919
Loans to customers	9	21,863,223	18,279,519	16,837,602
Investment securities in trading portfolio	10	346,387	373,793	-
Investment securities available for sale	10	2,845,560	3,023,680	4,177,937
Current income tax assets		14,398	-	513
Other assets	12	538,808	313,744	324,632
Property and equipment	11	1,246,996	1,264,037	1,288,241
Investment property	11	82,939	81,648	70,667
Intangible assets	11	150,216	98,213	66,907
Deferred tax asset		-	-	20,450
<b>Total assets</b>		<b>32,158,721</b>	<b>28,003,455</b>	<b>30,077,005</b>
<b>Liabilities</b>				
Due to the National Bank of Ukraine	13	1,062,916	1,016,153	1,016,157
Due to other banks	14	1,352,951	1,159,724	453,301
Customer accounts	15	21,067,555	17,680,843	20,297,649
Eurobonds issued	16	1,989,283	1,972,640	1,959,340
Bonds issued	17	109	108	108
Other borrowed funds	18	90,939	94,637	386,066
Other liabilities	19	360,592	167,508	143,577
Subordinated debt	20	529,162	527,624	721,336
Current income tax liability		-	13,446	-
Deferred tax liability	28	133,686	45,953	-
<b>Total liabilities</b>		<b>26,587,193</b>	<b>22,678,636</b>	<b>24,977,534</b>
<b>Equity</b>				
Share capital	22	3,427,350	3,427,350	3,427,350
Share premium		56,798	56,798	56,798
Merger reserve		34,266	34,266	34,266
Revaluation reserve for property and equipment		597,471	610,234	617,274
Revaluation reserve for investment securities available for sale		(30,010)	(17,017)	40,142
Retained earnings		1,485,653	1,213,188	923,641
<b>Total equity</b>		<b>5,571,528</b>	<b>5,324,819</b>	<b>5,099,471</b>
<b>Total liabilities and equity</b>		<b>32,158,721</b>	<b>28,003,455</b>	<b>30,077,005</b>

Signed on behalf of the Management Board on 21 March 2014

S. P. Chernenko (Chairman of the Management Board)

I.O. Kozhevyn (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)

*Translation from Ukrainian original*  
**PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**  
**Consolidated Statement of Income for the year ended 31 December 2013**  
*(in thousands of Ukrainian hryvnias)*

	Notes	2013	2012 (restated, Note 3)
Interest income	24	3,572,874	2,881,823
Interest expense	24	(1,847,734)	(1,605,247)
<b>Net interest income</b>	<b>24</b>	<b>1,725,140</b>	<b>1,276,576</b>
Allowance for impairment	8,9	(556,073)	(315,065)
<b>Net interest income after allowance for loan impairment</b>		<b>1,169,067</b>	<b>961,511</b>
Fee and commission income	25	1,053,648	737,822
Fee and commission expense	25	(278,593)	(187,053)
<b>Net fee and commission income</b>	<b>25</b>	<b>775,055</b>	<b>550,769</b>
Net gains from dealing in foreign currencies		25,059	67,720
Foreign exchange translation result		(25)	(36,024)
Net gains from investment securities available for sale		4,620	3,079
Net (losses) / gains from investment securities in trading portfolio		(13,552)	237
Reversal of / (charge to) provision for credit related commitments	31	2,742	(3,522)
Gains less losses on revaluation of investment property		2,533	19
Allowance for Impairment of investment securities available for sale		-	(589)
Gains less losses from financial derivatives		48,464	112,945
Other income	26	63,061	37,264
<b>Operating income</b>		<b>2,077,024</b>	<b>1,693,409</b>
Operating expenses	27	(1,388,655)	(1,266,337)
<b>Profit before income tax expense</b>		<b>688,369</b>	<b>427,072</b>
Income tax expense	28	(133,616)	(149,850)
<b>Net profit for the year</b>		<b>554,753</b>	<b>277,222</b>
<b>Earnings per share (in Ukrainian hryvnias per share)</b>	<b>34</b>	<b>38,73</b>	<b>19,35</b>

Signed on behalf of the Management Board on 21 March 2014

S. P. Chernenko (Chairman of the Management Board)

I.O. Kozhevina (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)

The notes set out on pages 6 to 80 form an integral part of these consolidated financial statements.

*Translation from Ukrainian original*  
**PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**  
**Consolidated Statement of Comprehensive Income for 2013**  
*(in thousands of Ukrainian hryvnias)*

	2013	2012 (restated)
<b>Net profit for the year</b>	<b>554,753</b>	<b>277,222</b>
<b>Other comprehensive income:</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Unrealized losses on investment securities available-for-sale	(9,816)	(66,645)
Realized gains on investment securities available-for-sale reclassified to the statement of profit or loss	(4,620)	(3,079)
Income tax effect	1,443	12,565
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>(12,993)</b>	<b>(57,159)</b>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Revaluation of buildings	-	6,295
Income tax effect	-	(1,010)
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	<b>-</b>	<b>5,285</b>
<b>Other comprehensive income for the year, net of tax</b>	<b>(12,993)</b>	<b>(51,874)</b>
<b>Total comprehensive income for the year</b>	<b>541,760</b>	<b>225,348</b>

Signed on behalf of the Management Board on 21 March 2014

S. P. Chernenko (Chairman of the Management Board)

I.O. Kozhevyn (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)

*Translation from Ukrainian original*  
**PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**  
**Consolidated Statement of Cash Flows for 2013**  
*(in thousands of Ukrainian hryvnias)*

	2013	2012 (restated)
<i>Cash flows from operating activities:</i>		
Interest income received	3,549,974	3,078,618
Interest expense paid	(1,734,383)	(1,523,852)
Fee and commission income received	1,053,367	495,005
Fee and commission expense paid	(270,533)	(189,268)
Income received from trading in foreign currencies	25,059	67,717
Gains from operations with investments securities	(4,723)	1,021
Gains less losses from financial derivatives	43,298	112,942
Other income received	63,241	34,558
Operating expenses paid	(1,223,179)	(1,122,760)
Income tax paid	(72,284)	(58,538)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>1,429,837</b>	<b>895,443</b>
<i>Net (increase)/decrease in operating assets:</i>		
Mandatory reserve balance with the National Bank of Ukraine	(571,923)	(85,684)
Due from other banks	(444,610)	170,455
Investment securities in trading portfolio	(50,533)	(361,619)
Loans to customers	(4,323,939)	(1,751,011)
Other assets	(116,865)	33,937
<i>Net increase/(decrease) in operating liabilities:</i>		
Due to the National Bank of Ukraine	45,962	-
Due to other banks	198,863	792,307
Customer accounts	3,371,874	(2,704,482)
Other liabilities	152,004	(3,070)
<b>Net cash used in operating activities</b>	<b>(208,264)</b>	<b>(3,013,724)</b>
<i>Cash flows from investing activities</i>		
Purchase of property and equipment and intangible assets	(151,743)	(137,798)
Proceeds from sale of property and equipment and intangible assets	7,703	3,045
Purchase of investment securities available for sale	(10,459,707)	(11,367,147)
Proceeds from sale and redemption of investment securities available for sale	11,030,369	12,481,522
Investments in subsidiaries	(295,051)	-
<b>Net cash from investing activities</b>	<b>131,571</b>	<b>979,622</b>
<i>Cash flows from financing activities</i>		
Redemption of subordinated debt	-	(199,825)
Redemption of other borrowed funds	(6,953)	(310,284)
<b>Net cash used in financing activities</b>	<b>(6,953)</b>	<b>(510,109)</b>
Effect of exchange rate changes on cash and cash equivalents	(22,677)	(3,973)
<b>Net decrease in cash and cash equivalents</b>	<b>(106,323)</b>	<b>(2,548,184)</b>
Cash and cash equivalents at the beginning of the year	3,768,439	6,316,623
<b>Cash and cash equivalents at the end of the year (Note 6)</b>	<b>3,662,116</b>	<b>3,768,439</b>

Signed on behalf of the Management Board on 21 March 2014

S. P. Chernenko (Chairman of the Management Board)

I.O. Kozhevyn (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)

The notes set out on pages 6 to 80 form an integral part of these consolidated financial statements.

*Translation from Ukrainian original*  
**PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**  
**Consolidated Statement of Changes in Equity for 2013**  
*(in thousands of Ukrainian hryvnias)*

	Share capital	Share premium	Merger reserve	Revaluation reserve for property and equipment	Revaluation reserve for investment securities available for sale	Retained earnings	Total equity
<b>Balance at 1 January 2012</b>	<b>3,427,350</b>	<b>56,798</b>	<b>34,266</b>	<b>617,274</b>	<b>40,142</b>	<b>657,447</b>	<b>4,833,277</b>
Effect of restatement (Note 3)	-	-	-	-	-	266,194	266,194
<b>Balance at 1 January 2012 (restated)</b>	<b>3,427,350</b>	<b>56,798</b>	<b>34,266</b>	<b>617,274</b>	<b>40,142</b>	<b>923,641</b>	<b>5,099,471</b>
Net profit for the year	-	-	-	-	-	277,222	277,222
Other comprehensive income / (loss) for the year	-	-	-	5,285	(57,159)	-	(51,874)
Total comprehensive income for the year	-	-	-	5,285	(57,159)	277,222	225,348
Transfer of property and equipment revaluation	-	-	-	(12,325)	-	12,325	-
<b>Balance at 31 December 2012 (restated)</b>	<b>3,427,350</b>	<b>56,798</b>	<b>34,266</b>	<b>610,234</b>	<b>(17,017)</b>	<b>1,213,188</b>	<b>5,324,819</b>
Net profit for the year	-	-	-	-	-	554,753	554,753
Other comprehensive loss for the year	-	-	-	-	(12,993)	-	(12,993)
Total comprehensive income / (loss) for the year	-	-	-	-	(12,993)	554,753	541,760
Transfer of property and equipment revaluation	-	-	-	(12,763)	-	12,763	-
Acquisition of a subsidiary (Note 1)	-	-	-	-	-	(295,051)	(295,051)
<b>Balance at 31 December 2013</b>	<b>3,427,350</b>	<b>56,798</b>	<b>34,266</b>	<b>597,471</b>	<b>(30,010)</b>	<b>1,485,653</b>	<b>5,571,528</b>

Signed on behalf of the Management Board on 21 March 2014

S. P. Chernenko (Chairman of the Management Board)

I.O. Kozhevina (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)

The notes set out on pages 6 to 80 form an integral part of these consolidated financial statements.



## **1. Principal activities**

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The Bank is a member of Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate #102 dated 29 September 2009), which operates according to the Law #2740-III "On Individuals Deposits Guarantee Fund". The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (2012: UAH 150 thousand).

The Bank's shareholders as at 31 December 2013 are "SCM FINANCE" (92.2% of share capital), SCM FINANCIAL OVERSEAS LIMITED (7.7% of share capital) and a private shareholder (0.1% of share capital) (2012: "SCM FINANCE" (92.2% of share capital), SCM FINANCIAL OVERSEAS LIMITED (7.7% of share capital) and a private shareholder (0.1% of share capital)). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

The registered office of the Bank is located at: 2-a Universytetska Street, Donetsk, Ukraine. As at 31 December 2013 the Bank had 10 regional centres throughout Ukraine (2012: 10 branches throughout Ukraine).

On 12 December 2013 the Bank acquired 100% of shares of PUBLIC JOINT-STOCK COMPANY "BANK RENAISSANCE CAPITAL" (the "PJSC "BRC"). Principal activity of PJSC "BRC" is a provision of banking services to private individuals in Ukraine. PJSC "BRC" is a member of the Individuals Deposits Guarantee Fund (registration certificate #184 dated 27 January 2006).

These consolidated financial statements comprise financial statements of the Bank and PJSC "BRC" (the "Group").

## **2. Operating environment of the Group**

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. Operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In November 2013, the Ukrainian Government declined to sign the association agreement with the European Union, which resulted in protests and signs of political unrest. In January-February 2014, the political unrest escalated and resulted in the President and majority of Government officials being dismissed by the Parliament. The Parliament has initiated certain political reforms, has appointed a transitional Government and is forming a set of anti-crisis measures.

Furthermore, from 1<sup>st</sup> January 2014 to 21<sup>st</sup> March 2014, the Ukrainian hryvnia devaluated against major foreign currencies by approximately 26%, and the National Bank imposed certain restrictions for legal entities on purchase of foreign currencies at the interbank market.

The combination of the above events has resulted in a deterioration of liquidity on Ukrainian banking market and much tighter lending conditions.

The international rating agencies have downgraded sovereign debt ratings for Ukraine. The rating of the Bank has been limited by the sovereign rating for Ukraine.

The future economic development of Ukraine is dependent upon external factors and internal measures undertaken by the Government to restore growth, and to change the tax, legal and regulatory environment. Management is monitoring these developments in the current environment and is taking all necessary measures to support the sustainability and development of the Bank's business. An impact on the Group's results and financial position is not currently determinable.

**Translation from Ukrainian original**  
**PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**  
**Notes to the 2013 consolidated financial statements**  
*(in thousands of Ukrainian hryvnias)*

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**3. Basis of preparation**

**General**

The financial statements are prepared in accordance with International Financial Reporting Standards (the "IFRS") under the historical cost convention except for financial instruments and investment property at fair value and premises and works of arts recognized at revalued amount. These policies have been consistently applied by the Group to all the periods presented, unless otherwise stated.

**Changes in presentation**

During preparation of consolidated financial statements for the year ended 31 December 2013, bank noticed, that accrued interest income on securities was not included into calculation of deferred tax as at 31 December 2012. The effect of change as at 31 December 2012 is as follows:

	As previously reported	Change in presentation	As changed
<b>Consolidated statement of financial position</b>			
<i>Liabilities</i>			
Deferred tax liability	31,924	14,676	46,600
Total liabilities	22,495,348	14,676	22,510,024
<i>Equity</i>			
Retained earnings	948,369	(14,676)	933,693
Total Equity	5,060,000	(14,676)	5,045,324
<b>Consolidated statement of income</b>			
Income tax expenses	(121,451)	(14,676)	(136,127)
Net profit for the year	278,597	(14,676)	263,921
<b>Consolidated statement of comprehensive income</b>			
Net profit for the year	278,597	(14,676)	263,921
Total comprehensive income for the year	226,723	(14,676)	212,047

**Predecessor values method**

As PJSC "BRC" is a part of SCM Group controlled by Mr. Akhmetov R.L., acquisition of PJSC "BRC" was designated as a business combination under common control and is recognized in consolidated financial statements of the Group using the "predecessor values method" in accordance to the accounting policy of the Group (Note 4). On acquisition, assets, liabilities, equity and financial results of PJSC "BRC" were recognized at their carrying values in IFRS financial statements of PJSC "BRC" (assets, liabilities and equity of PJSC "BRC" at carrying values in consolidated financial statements of SCM). Data of PJSC "BRC" recognized in consolidated financial statements of the Group from the earliest period presented as if the acquisition occurred at the beginning of that period.

*Translation from Ukrainian original*  
**PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**  
**Notes to the 2013 consolidated financial statements**  
*(in thousands of Ukrainian hryvnias)*

**3. Basis of preparation (continued)**

Effect of the acquisition on the statement of financial position as at 31 December 2012 is presented in the table below:

Statement of financial position	Bank before the business acquisition as previously reported	Effect of the acquisition		Group after the business acquisition
		Data of PJSC “BRC” in accordance with unified accounting policy	Effect of intercompany balances and transactions	
<b>Assets</b>				
Cash on hand and in transit	702,912	16,080	-	<b>718,992</b>
Balance with the National Bank of Ukraine	1,485,260	59,140	-	<b>1,544,400</b>
Due from other banks	2,404,678	209,399	(308,648)	<b>2,305,429</b>
Loans to customers	17,883,802	395,717	-	<b>18,279,519</b>
Investment securities in trading portfolio	373,793	-	-	<b>373,793</b>
Investment securities available for sale	3,023,680	-	-	<b>3,023,680</b>
Other assets	286,973	27,424	(653)	<b>313,744</b>
Property and equipment	1,227,636	36,401	-	<b>1,264,037</b>
Investment property	81,648	-	-	<b>81,648</b>
Intangible assets	84,966	13,247	-	<b>98,213</b>
Deferred tax asset	-	647	(647)	<b>-</b>
<b>Total assets</b>	<b>27,555,348</b>	<b>758,055</b>	<b>(309,948)</b>	<b>28,003,455</b>
<b>Liabilities</b>				
Due to the National Bank of Ukraine	1,016,153	-	-	1,016,153
Due to other banks	1,172,038	296,334	(308,648)	1,159,724
Customer accounts	17,610,953	69,890	-	17,680,843
Eurobonds issued	1,972,640	-	-	1,972,640
Bonds issued	108	-	-	108
Other borrowed funds	94,637	-	-	94,637
Other liabilities	110,363	57,798	(653)	167,508
Subordinated debt	486,532	41,092	-	527,624
Deferred tax liability	46,600	-	(647)	45,953
Current income tax liability	-	13,446	-	13,446
<b>Total liabilities</b>	<b>22,510,024</b>	<b>478,560</b>	<b>(309,948)</b>	<b>22,678,636</b>
<b>Equity</b>				
Share capital	3,427,350	201,400	(201,400)	<b>3,427,350</b>
Additional paid-in capital	-	12,670	(12,670)	<b>-</b>
Share premium	56,798	-	-	<b>56,798</b>
Merger reserve	34,266	-	-	<b>34,266</b>
Revaluation reserve for property and equipment	610,234	-	-	<b>610,234</b>
Revaluation reserve for investment securities available for sale	(17,017)	-	-	<b>(17,017)</b>
Retained earnings	933,693	65,425	214,070	<b>1,213,188</b>
<b>Total equity</b>	<b>5,045,324</b>	<b>279,495</b>	<b>-</b>	<b>5,324,819</b>
<b>Total liabilities and equity</b>	<b>27,555,348</b>	<b>758,055</b>	<b>(309,948)</b>	<b>28,003,455</b>

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**PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**  
**Notes to the 2013 consolidated financial statements**  
*(in thousands of Ukrainian hryvnias)*

**3. Basis of preparation (continued)**

Effect of the acquisition on the statement of income for 2012 is presented in the table below:

Statement of income	Bank before the business acquisition as previously reported	Effect of the acquisition		Group after the business acquisition
		Data of PJSC “BRC” in accordance with unified accounting policy	Effect of intercompany balances and transactions	
Interest income	2 749 433	148 834	(16 444)	2 881 823
Interest expense	(1 598 237)	(23 454)	16 444	(1 605 247)
<b>Net interest income</b>	<b>1 151 196</b>	<b>125 380</b>	-	<b>1 276 576</b>
Allowance for impairment	(285 610)	(29 455)	-	(315 065)
<b>Net interest income after allowance for loan impairment</b>	<b>865 586</b>	<b>95 925</b>	-	<b>961 511</b>
Fee and commission income	495 605	255 125	(12 908)	737 822
Fee and commission expense	(188 062)	(11 899)	12 908	(187 053)
<b>Net fee and commission income</b>	<b>307 543</b>	<b>243 226</b>	-	<b>550 769</b>
Net gains from dealing in foreign currencies	67 357	363	-	67 720
Foreign exchange translation result	(36 479)	455	-	(36 024)
Net gains from investment securities available for sale	3 079	-	-	3 079
Charge to provision for credit related commitments	(3 522)	-	-	(3 522)
Gains less losses on revaluation of investment property	19	-	-	19
Allowance for Impairment of investment securities available for sale	(589)	-	-	(589)
Revaluation of investment securities through profit or loss	237	-	-	237
Gains less losses from financial derivatives	113 006	(61)	-	112 945
Other income	29 869	7 395	-	37 264
<b>Operating income</b>	<b>1 346 106</b>	<b>347 303</b>	-	<b>1 693 409</b>
Operating expenses	(946 058)	(320 279)	-	(1 266 337)
<b>Profit before income tax expense</b>	<b>400 048</b>	<b>27 024</b>	-	<b>427 072</b>
Income tax expense	(136,127)	(13 723)	-	(149,850)
<b>Net profit for the year</b>	<b>263,921</b>	<b>13 301</b>	-	<b>277,222</b>

Statement of other comprehensive income of the Group for 2012 before and after acquisition is presented in table below.

Statement of other comprehensive income	Bank before the business acquisition as previously reported	Effect of the acquisition		Group after the business acquisition
		Data of PJSC “BRC” in accordance with unified accounting policy	Effect of intercompany balances and transactions	
<b>Total comprehensive income for the year</b>	<b>212,047</b>	<b>13,301</b>	-	<b>225,348</b>

*Translation from Ukrainian original*  
**PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**  
**Notes to the 2013 consolidated financial statements**  
*(in thousands of Ukrainian hryvnias)*

**3. Basis of preparation (continued)**

Effect of the acquisition on the statement of financial position as at 31 December 2011 is presented in the table below:

Statement of financial position	Bank before the business acquisition as previously reported	Effect of the acquisition		Group after the business acquisition
		Data of PJSC “BRC” in accordance with unified accounting policy	Effect of intercompany balances and transactions	
<b>Assets</b>				
Cash on hand and in transit	630,910	14,492	-	<b>645,402</b>
Balance with the National Bank of Ukraine	2,103,480	5,255	-	<b>2,108,735</b>
Due from other banks	4,676,892	78,871	(219,844)	<b>4,535,919</b>
Loans to customers	16,425,065	412,537	-	<b>16,837,602</b>
Investment securities available for sale	4,177,937	-	-	<b>4,177,937</b>
Current income tax asset	307	206	-	<b>513</b>
Other assets	297,640	26,992	-	<b>324,632</b>
Property and equipment	1,266,653	21,588	-	<b>1,288,241</b>
Investment property	70,667	-	-	<b>70,667</b>
Intangible assets	59,644	7,263	-	<b>66,907</b>
Deferred tax asset	19,955	495	-	<b>20,450</b>
<b>Total assets</b>	<b>29,729,150</b>	<b>567,699</b>	<b>(219,844)</b>	<b>30,077,005</b>
<b>Liabilities</b>				
Due to the National Bank of Ukraine	1,016,157	-	-	<b>1,016,157</b>
Due to other banks	521,159	151,986	(219,844)	<b>453,301</b>
Customer accounts	20,224,181	73,468	-	<b>20,297,649</b>
Eurobonds issued	1,959,340	-	-	<b>1,959,340</b>
Bonds issued	108	-	-	<b>108</b>
Other borrowed funds	386,066	-	-	<b>386,066</b>
Other liabilities	107,292	36,285	-	<b>143,577</b>
Subordinated debt	681,570	39,766	-	<b>721,336</b>
<b>Total liabilities</b>	<b>24,895,873</b>	<b>301,505</b>	<b>(219,844)</b>	<b>24,977,534</b>
<b>Equity</b>				
Share capital	3,427,350	201 400	(201 400)	<b>3,427,350</b>
Additional paid-in capital	-	12 670	(12 670)	<b>-</b>
Share premium	56,798	-	-	<b>56,798</b>
Merger reserve	34,266	-	-	<b>34,266</b>
Revaluation reserve for property and equipment	617,274	-	-	<b>617,274</b>
Revaluation reserve for investment securities available for sale	40,142	-	-	<b>40,142</b>
Retained earnings	657,447	52,124	214,070	<b>923,641</b>
<b>Total equity</b>	<b>4,833,277</b>	<b>266,194</b>	<b>-</b>	<b>5,099,471</b>
<b>Total liabilities and equity</b>	<b>29,729,150</b>	<b>567,699</b>	<b>(219,844)</b>	<b>30,077,005</b>

***Inflation accounting***

The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Group has applied IAS 29 “Financial reporting in hyper-inflationary economies”. The effect of applying IAS 29 is that non-monetary items were restated using the Consumer Price Index to measuring units current at 31 December 2000, and these restated values were used as a basis for accounting in subsequent accounting periods.

#### **4. Summary of significant accounting policies**

The Group adopted the following amended IFRS and IFRIC Interpretations during the reporting year.

##### ***IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements***

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidated financial statements of the Group.

##### ***IFRS 13 Fair Value Measurement***

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change the definition when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. The Group applied the requirements of IFRS 13 to fair values disclosures in these consolidated financial statements.

##### ***Amendments to IAS 19 Employee Benefits***

The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

##### ***IFRS 12 Disclosure of Interests in Other Entities***

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. IFRS 12 did not have any impact on these consolidated financial statements of the Group.

##### ***Amendments to IAS 1 Presentation of Other Comprehensive Income***

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance.

##### ***IAS 1 Clarification of the Requirement for Comparative Information (amendment)***

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

##### ***Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities***

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group's financial position or performance.

#### **4. Summary of significant accounting policies (Continued)**

##### ***Basis of consolidation***

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control, after excluding intragroup transactions and balances.

##### ***Combination of business under common control***

Combinations of businesses under common control are accounted for using the predecessor values method. Under this method, amounts are presented in the financial statements after the business combination as combined amounts of the two entities from the beginning of the earliest period presented. Assets and liabilities of an acquired entity are recognised in the financial statements of a combined entity similarly to consolidation of the corresponding items of a subsidiary in the financial statements of a parent company after eliminating all intergroup balances and transactions. Any difference between the combined amounts and consolidated amounts of assets and liabilities determined under the predecessor values method is recognised as changes in equity in a separate reserve. No goodwill arises on the combination of businesses under common control accounted for under the predecessor values method.

##### ***Financial assets***

###### ***Key measurement terms***

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the primary (or in the absence of a principal, in the most advantageous) market under current market conditions (i.e. an exit price), using either quoted prices or valuation techniques.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs - unobservable inputs for the asset or liability

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

#### **4. Summary of significant accounting policies (Continued)**

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

##### *Initial recognition*

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Measurement at the reporting date*

Financial assets at fair value through profit or loss and financial assets available for sale are measured at fair value, and other financial assets are measured at amortised cost.

##### *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (an incurred 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with inability to settle a liability (default).



#### **4. Summary of significant accounting policies (Continued)**

##### ***Classification of financial assets***

###### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at fair value through profit or loss or designated as available-for-sale financial assets. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, income is recognised through the amortisation process.

###### *Investment securities available for sale*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial recognition available-for-sale financial assets are measured at fair value, except for shares carried at cost, with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the profit or loss. Interest calculated using the effective interest method is recognised in the consolidated statement of income.

###### *Cash and cash equivalents*

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, deposit certificates issued by National Bank of Ukraine (the "NBU") with maturity up to 90 days, cash on hand and in transit and balances with the NBU, excluding mandatory reserve balances and accrued interests. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

###### *Sale and repurchase agreements*

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

###### *Promissory notes*

Promissory notes are included in investment securities available for sale or in loans to customers, depending on their substance and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

#### **4. Summary of significant accounting policies (Continued)**

##### ***Impairment of financial assets***

###### *Due from other banks and loans to customers*

For due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If an exposure written off is later recovered, the recovery is credited to allowance for loan impairment in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods on which historical loss experience is based and to remove the effects of past conditions that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

###### *Repossessed collateral*

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

#### **4. Summary of significant accounting policies (Continued)**

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each consolidated statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

##### *Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Loans are subject to individual or collective assessment for impairment.

##### *Derecognition of financial assets*

The Group derecognises financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when (i) the contractual rights to the cash flows from the financial asset expire or (ii) the Bank transfers its contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay these cash flows of the financial asset and (iii) the Bank either (a) transfers substantially all the risks and rewards of ownership of the financial asset, or (b) neither transferred nor retained substantially all risks and rewards of ownership of the financial asset but has not retained control of this asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

#### **Financial liabilities**

##### *Initial recognition*

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. Financial liabilities are measured at fair value on initial recognition, unless those liabilities are not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial liabilities upon initial recognition.

##### **Classification of financial liabilities**

##### *Borrowings*

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than for a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, customer accounts, subordinated debt, Eurobonds issued, bonds issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the borrowings are derecognised, expense is recognised through the amortisation process.

##### *Subordinated debt*

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

#### **4. Summary of significant accounting policies (Continued)**

##### *Financial guarantees*

Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each reporting date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income.

##### *Other credit related commitments*

In the normal course of business, the Group enters into other credit related commitments including loan commitments and letters of credit. When a loss is considered probable, provisions are recorded against other credit related commitments.

##### *Measurement at the reporting date*

Financial liabilities at fair value through profit or loss are measured at fair value, and other financial liabilities are measured at amortised cost.

##### *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

##### **Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

##### **Derivative financial instruments**

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from financial derivatives.

##### **Precious metals**

The Group has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are recognized in other assets with gains or losses recognised in other income.

##### **Property and equipment**

Property and equipment, other than premises and items of arts, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and any accumulated impairment, where required. The above cost is restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 less accumulated depreciation and any accumulated impairment, where required.

Following initial recognition at cost, the Group's premises and works of arts are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the consolidated statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for premises and recognised in other comprehensive income.

#### **4. Summary of significant accounting policies (Continued)**

When an item of premises is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, management of the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2%-5%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	

Works of arts are not amortised. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

#### ***Intangible assets***

All of the Group's intangible assets have a definite useful life and include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 3 to 10 years.

#### ***Investment property***

Investment property is property, which is held by and not occupied by the Group, to earn rental income or for capital appreciation.

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated statement of income in gains less losses on revaluation of investment property in the year in which they arise.

If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated

#### ***Trade and other payables***

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

#### **4. Summary of significant accounting policies (Continued)**

##### ***Share capital***

Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

##### ***Foreign currency translation***

The Ukrainian hryvnia is the Group's functional currency as it is the currency of the primary economic environment in which the Group operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

##### ***Recognition of income and expenses***

###### ***Interest and similar income and expense***

Interest income and expense are recorded in the consolidated statement of income for all financial instruments measured at amortised cost and interest bearing securities at the effective interest method. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

###### ***Fee and commission income***

Fees, commissions and other income and expense items, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

##### ***Income taxes***

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

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

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

#### **4. Summary of significant accounting policies (Continued)**

##### ***Fiduciary activities***

Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

##### ***Provisions for contingencies***

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

##### ***Retirement and other employee benefit obligations***

The Group pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Group's contributions are expensed as incurred. The Group has no other post-retirement benefit plans.

##### ***Operating leases***

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. If the Group is a lessee, then lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

If the Group is a lessor, assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of income on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation are added to the carrying amount of the leased asset.

##### ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management that is defined as chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The analysis of geographical information is based on domicile of the customer.

##### ***Amendments of the consolidated financial statements after issue.***

The Group's shareholders have the power to amend the consolidated financial statements after issue.

##### ***New Accounting Pronouncements***

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 and which the Group has not early adopted.

##### ***IFRS 9 Financial Instruments***

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

##### ***Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)***

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Bank does not qualify to be an investment entity under IFRS 10.

##### ***IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32***

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

#### **4. Summary of significant accounting policies (Continued)**

##### *IFRIC Interpretation 21 Levies (IFRIC 21)*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods

beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have a material impact on its consolidated financial statements.

##### *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

*Other changes into accounting standards and interpretations*, including changes into IAS 19 Employee Benefits, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures would not have effect on this financial statements.

#### **5. Critical accounting estimates and judgements in applying accounting policies**

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

##### ***Impairment losses on loans and receivables***

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Group regularly assesses assets pledged as collateral for the individually impaired loans to estimate the amount of losses likely to be incurred. The amount of the future cash flow from sale of assets is influenced by the value of the assets held by the Group as collateral and the expected term of the assets' sale. A simultaneous 10% decrease in the value of assets held by the Group as collateral on loans and 50% increase in the expected term of assets' sale would result in an increase in impairment losses of UAH 182,760 thousand (2012: UAH 275,199 thousand) on loans individually determined to be impaired.

A 10% increase in the value of assets held by the Bank as collateral on loans impaired would result in a decrease of expected loss of UAH 100,000 thousand (2012: UAH 84,638 thousand).



## **5. Critical accounting estimates and judgements in applying accounting policies (Continued)**

Expected loss on corporate loans with the collectively assessed allowances for impairment may be influenced by the probability of borrower's default (PD) and cure rate (CR), representing the statistics of the recovery of impaired loans. A simultaneous 10% increase in PD and 10% decrease in CR would result in an increase in impairment losses of UAH 8,473 thousand (2012: UAH 8,880 thousand). A simultaneous 10% decrease in PD and increase in CR would result in a decrease in impairment losses of UAH 8,017 thousand (2012: UAH 8,321 thousand).

Expected loss on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in impairment losses of UAH 37,479 thousand (2012: UAH 42,555 thousand). A simultaneous 10% decrease in PD and increase in RR would result in a decrease in impairment losses of UAH 37,856 thousand (2012: UAH 42,451 thousand).

### ***Fair value of own use premises, works of arts and investment property***

As stated in Note 4, the premises and the investment property of the Group are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent appraiser. The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued. In 2013, the Group held the assessment of fair value of own premises without engaging the independent appraisers and made a conclusion that their fair value differs from the carrying value no more than 5 %, that's why the Group management made a decision not to revalue own premises in the reporting year. To the extent that the price per square meter differs in the range of 5%, the fair value of own use premises would be UAH 52,557 thousand higher or lower, respectively, and the fair value of investment property would be UAH 4,147 thousand higher or lower, respectively.

### ***Related party transactions***

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is the pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of related party transactions are disclosed in Note 33.

### ***Fair value of financial instruments***

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 30.

## **6. Cash and cash equivalents**

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Cash on hand and in transit	1,336,850	718,992	645,402
Current accounts and overnight deposits with other banks (Note 8)	1,347,157	1,967,345	3,937,885
Current accounts and overnight deposits with other banks – interest income accrued (Note 8)	(308)	(1,726)	(445)
Current account with the National Bank of Ukraine (Note 7)	1,100,125	1,441,498	1,867,085
Current account with the National Bank of Ukraine – mandatory reserve balance (Note 7)	(521,708)	(357,670)	(133,304)
Deposit certificates (Note 10)	400,000	-	-
<b>Total cash and cash equivalents</b>	<b>3,662,116</b>	<b>3,768,439</b>	<b>6,316,623</b>

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**7. Balance with the National Bank of Ukraine**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Current account with the National Bank of Ukraine, including:	1,100,125	1,441,498	1,867,085
part of mandatory reserve balance	521,708	357,670	133,304
Mandatory reserve balance	442,756	68,724	215,463
Other mandatory reserve balance	68,031	34,178	26,187
<b>Total balance with the National Bank of Ukraine</b>	<b>1,610,912</b>	<b>1,544,400</b>	<b>2,108,735</b>

In accordance with the NBU requirements, the Group is required to maintain the mandatory reserve balance with the NBU, which is computed as a percentage of certain of the Group's liabilities for the prior period of provisioning. Mandatory reserve balance for December 2013 amounted to UAH 1,071,141 thousand (2012: UAH 743,864 thousand; 2011: UAH 532,835 thousand). As at 31 December 2013, 40% of the mandatory reserve balance for the previous month in the amount UAH 1,105,055 thousand (2012: 50% of the mandatory reserve balance for the previous month in the amount of UAH 715,340 thousand; 2011: 70% of the mandatory reserve balance for the previous month in the amount of UAH 533,214 thousand) should be maintained on a separate account with the NBU, with interest accrued at 30% of the official discount rate of the NBU, being 1.95 % as at 31 December 2013 (2012: 2.25%; 2011: 2.325%). As at 31 December 2013, the amount of interest accrued on the account balance was UAH 734 thousand (2012: UAH 139 thousand; 2011: UAH 413 thousand).

In addition to the obligatory reserves placement on the separate account with the NBU, the Group shall provide a daily opening balance on the current account with the NBU being 60% of the obligatory reserves value for the previous month (2012: 50% for the previous month; 2011: 25%).

To cover obligatory reserves requirements to be created and accounted on current accounts of the Group in the NBU, it is allowed to account 10% of carrying value of domestic state bonds denominated in foreign currencies (in UAH equivalent). As at 31 December 2013 carrying value of such bonds used by the Group to cover obligatory reserves amounted to UAH 141,261 thousand (2012: nil; 2011: nil) and 100% of cash balances on the Group's accounts with PJSC "Settlements center on agreements servicing on financial markets". As at 31 December 2013 those balances amounted to UAH 64 thousands (2012: nil; 2011: nil).

In 2012 it was allowed to account 50% of nominal value of Euro-2012 Ukrainian domestic state bonds and 10% of nominal value of Ukrainian domestic bonds denominated in foreign currencies to cover obligatory reserves accounted on the separate account with the NBU. As at 31 December 2012 carrying value of the bonds used by the Group to cover obligatory reserves amounted to UAH 289,085 thousand (2011: UAH 158,200 thousand).

Therefore, as at 31 December 2013, the mandatory reserve balance is not available for the Group's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

In addition, the Group is required to keep other mandatory reserves on the separate account with the NBU for:

- impairment provisions determined according to the NBU requirements created for loans granted in foreign currency to borrowers with no foreign currency income;
- foreign currency deposits and loans received from non-residents for a period of less than 183 calendar days.

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**8. Due from other banks**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Current accounts and overnight deposits with other banks			
- OECD countries	1,167,711	1,679,934	3,774,011
- Domestic	94,603	224,349	107,683
- Non-OECD countries	84,843	63,062	56,191
<b>Total current accounts and overnight deposits with other banks</b>	<b>1,347,157</b>	<b>1,967,345</b>	<b>3,937,885</b>
including interest income accrued	308	1,726	445
Term deposits with other banks, including:			
- OECD countries	188,260	170,887	178,034
- Domestic	586,279	174,010	220,886
- Non-OECD countries	736	329	317
Reverse sale and repurchase agreements	-	-	206,021
Allowance for impairment	-	(7,142)	(7,224)
<b>Total term deposits with other banks</b>	<b>775,275</b>	<b>338,084</b>	<b>598,034</b>
<b>Total due from other banks</b>	<b>2,122,432</b>	<b>2,305,429</b>	<b>4,535,919</b>

Placements are made with Ukrainian and foreign banks. Analysis by credit quality of due from other banks outstanding at 31 December 2013 is as follows:

	<b>Current accounts and overnight deposits with other banks</b>	<b>Term deposits with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- AA- to AA+ rated	109,577	-	109,577
- A- to A+ rated	1,028,885	3,696	1,032,581
- BBB- to BBB+ rated	68,161	-	68,161
- BB- to BB+ rated	45,154	-	45,154
- B- to B+ rated	605	56,693	57,298
- CCC- to CCC+ rated	73,529	32	73,561
- Unrated	21,246	714,854	736,100
<b>Total neither past due nor impaired</b>	<b>1,347,157</b>	<b>775,275</b>	<b>2,122,432</b>
<b>Total due from other banks</b>	<b>1,347,157</b>	<b>775,275</b>	<b>2,122,432</b>

The credit ratings are based on the ratings assigned by the international rating agencies Fitch, Moody's and S&P. Counterparties disclosed in the above table as "unrated" mainly include Ukrainian banks, considered to be mid-size or small banks in terms of the amount of total assets.

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**8. Due from other banks (Continued)**

Analysis by credit quality of due from other banks outstanding at 31 December 2012 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Total
<i>Neither past due nor impaired</i>			
- AA- to AA+ rated	232,072	-	232,072
- A- to A+ rated	1,437,771	170,887	1,608,658
- BBB- to BBB+ rated	21,554	-	21,554
- BB- to BB+ rated	40,787	-	40,787
- B- to B+ rated	721	63,623	64,344
- CCC- to CCC+ rated	89,325	32	89,357
- CC- to CC+ rated	-	81,196	81,196
- Unrated	145,115	22,346	167,461
<b>Total neither past due nor impaired</b>	<b>1,967,345</b>	<b>338,084</b>	<b>2,305,429</b>
Balances individually determined to be impaired over 360 days overdue	-	7,142	7,142
<b>Total individually impaired</b>	<b>-</b>	<b>7,142</b>	<b>7,142</b>
Less allowance for impairment	-	(7,142)	(7,142)
<b>Total due from other banks</b>	<b>1,967,345</b>	<b>338,084</b>	<b>2,305,429</b>

Analysis by credit quality of due from other banks outstanding at 31 December 2011 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Reverse sale and repurchase agreements	Total
<i>Neither past due nor impaired</i>				
- AA- to AA+ rated	811,714	-	-	811,714
- A- to A+ rated	2,947,439	178,034	-	3,125,473
- BBB- to BBB+ rated	29,506	-	-	29,506
- BB- to BB+ rated	26,665	-	-	26,665
- B- to B+ rated	100,419	148,197	-	248,616
- Unrated	22,142	65,782	206,021	293,945
<b>Total neither past due nor impaired</b>	<b>3,937,885</b>	<b>392,013</b>	<b>206,021</b>	<b>4,535,919</b>
<i>Balances individually determined to be impaired</i>				
- over 360 days overdue	-	7,224	-	7,224
<b>Total individually impaired</b>	<b>-</b>	<b>7,224</b>	<b>-</b>	<b>7,224</b>
Less allowance for impairment	-	(7,224)	-	(7,224)
<b>Total due from other banks</b>	<b>3,937,885</b>	<b>392,013</b>	<b>206,021</b>	<b>4,535,919</b>

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**8. Due from other banks (Continued)**

Movements in the allowance for impairment of due from other banks during the year are as follows:

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
	<b>Term deposits with other banks</b>	<b>Term deposits with other banks</b>	<b>Term deposits with other banks</b>
<b>Balance as at 1 January</b>	<b>7,142</b>	<b>7,224</b>	<b>7,538</b>
Release of allowance	(657)	(82)	-
Assets written off during the year as uncollectible	(6,485)	-	(314)
<b>Balance as at 31 December</b>	<b>-</b>	<b>7,142</b>	<b>7,224</b>

As at 31 December 2013, term deposits placed with other banks in OECD and non-OECD countries of UAH 189,060 thousand (2012: UAH 171,215 thousand; 2011: UAH 178,350 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients (Note 31).

As at 31 December 2013 UAH 648,212 thousand on current accounts and overnight deposits with other banks representing 31% of the total amount due from other banks before deduction of the allowance for impairment were placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies (2012: UAH 1,020,442 thousand representing 44% of the total amounts due from other banks were placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies; 2011: UAH 2,429,629 thousand representing 54% of the total amounts due from other banks were placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies).

**9. Loans to customers**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Corporate loans	17,765,892	15,389,700	14,510,725
Reverse sale and repurchase agreements	-	-	2,078
Less allowance for impairment	(1,442,960)	(1,670,724)	(1,708,976)
<b>Total corporate loans</b>	<b>16,322,932</b>	<b>13,718,976</b>	<b>12,803,827</b>
Loans to individuals:			
Consumer loans	3,432,438	2,150,714	1,044,609
Mortgage loans	2,234,997	2,968,273	3,347,816
Car loans	456,020	606,272	725,362
Other loans	702,709	301,817	154,635
Less allowance for impairment	(1,285,873)	(1,466,533)	(1,238,647)
<b>Total loans to individuals</b>	<b>5,540,291</b>	<b>4,560,543</b>	<b>4,033,775</b>
<b>Total loans to customers</b>	<b>21,863,223</b>	<b>18,279,519</b>	<b>16,837,602</b>

Included in gross loans to customers as at 31 December 2013 were loans with fixed interest rates of UAH 24,357,192 thousand (2012: UAH 20,966,685 thousand; 2011: UAH 19,473,264 thousand) and loans with floating interest rates of UAH 234,864 thousand (2012: UAH 450,091 thousand; 2011: UAH 311,961 thousand) .

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**9. Loans to customers (continued)**

*Movements in allowance for loan impairment*

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2013 were as follows:

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
<b>Allowance for impairment of loan portfolio at 1 January 2013</b>	<b>1,670,724</b>	<b>1,169,133</b>	<b>138,174</b>	<b>130,171</b>	<b>29,055</b>	<b>3,137,257</b>
Provision/(reversal of provision) during the year	242,125	(61,673)	47,722	289,723	38,833	556,730
Loans written off during the year as uncollectable	(473,951)	(212,868)	(102,013)	(157,374)	(23,010)	(969,216)
Effect of translation to presentation currency	4,062	-	-	-	-	4,062
<b>Allowance for impairment of loan portfolio at 31 December 2013</b>	<b>1,442,960</b>	<b>894,592</b>	<b>83,883</b>	<b>262,520</b>	<b>44,878</b>	<b>2,728,833</b>

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**9. Loans to customers (Continued)**

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2013 were as follows:

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	1,196,745	366,304	1,440	-	-	1,564,489
Allowance recognised for loans collectively determined to be impaired	186,545	518,873	81,598	27,689	32,723	847,428
Allowance recognised on collective basis for loans without specific sign of impairment	59,670	9,415	845	234,831	12,155	316,916
<b>Total recognised allowance for loan impairment</b>	<b>1,442,960</b>	<b>894,592</b>	<b>83,883</b>	<b>262,520</b>	<b>44,878</b>	<b>2,728,833</b>
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	2,185,714	830,426	1,769	-	-	3,017,909
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	302,016	809,761	123,972	490,493	62,190	1,788,432
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	15,278,162	594,810	330,279	2,941,945	640,519	19,785,715
<b>Gross amount of loans before deducting any impairment allowance</b>	<b>17,765,892</b>	<b>2,234,997</b>	<b>456,020</b>	<b>3,432,438</b>	<b>702,709</b>	<b>24,592,056</b>
Provisioning rate for individually impaired loans	55%	44%	81%	-	-	52%
Provisioning rate for collectively impaired loans	62%	64%	66%	6%	53%	47%
Provisioning rate for loans without specific sign of impairment	0%	2%	0%	8%	2%	2%

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**9. Loans to customers (Continued)**

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2012 were as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
<b>Allowance for impairment of loan portfolio at 1 January 2012</b>	<b>1,706,898</b>	<b>2,078</b>	<b>1,083,184</b>	<b>110,371</b>	<b>34,897</b>	<b>10,195</b>	<b>2,947,623</b>
Provision/(reversal of provision) during the year	39,618	(2,078)	117,233	27,803	109,142	23,429	315,147
Loans written off during the year as uncollectable	(75,792)	-	(31,284)	-	(13,868)	(4,569)	(125,513)
<b>Allowance for impairment of loan portfolio at 31 December 2012</b>	<b>1,670,724</b>	<b>-</b>	<b>1,169,133</b>	<b>138,174</b>	<b>130,171</b>	<b>29,055</b>	<b>3,137,257</b>



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**9. Loans to customers (Continued)**

Analysis of the allowance for impairment of the loan portfolio by class and provisioning rate as at 31 December 2012 is as follows:

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	1,368,010	607,564	4,748	-	-	1,980,322
Allowance recognised for loans collectively determined to be impaired	252,891	549,471	130,110	108,020	20,718	1,016,210
Allowance recognised on collective basis for loans without specific sign of impairment	49,823	12,098	3,316	22,151	8,337	95,725
<b>Total recognised allowance for loan impairment</b>	<b>1,670,724</b>	<b>1,169,133</b>	<b>138,174</b>	<b>130,171</b>	<b>29,055</b>	<b>3,137,257</b>
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	2,698,093	1,251,672	5,132	-	-	3,954,897
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	391,529	896,990	184,151	240,173	32,181	1,745,024
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	12,300,078	819,611	416,989	1,910,541	269,636	15,716,855
<b>Gross amount of loans before deducting any impairment allowance</b>	<b>15,389,700</b>	<b>2,968,273</b>	<b>606,272</b>	<b>2,150,714</b>	<b>301,817</b>	<b>21,416,776</b>
Provisioning rate for individually impaired loans	51%	49%	93%	-	-	50%
Provisioning rate for collectively impaired loans	65%	61%	71%	45%	64%	61%
Provisioning rate for loans without specific sign of impairment	0%	1%	1%	1%	3%	1%

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**9. Loans to customers (Continued)**

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2011 were as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
<b>Allowance for impairment of loan portfolio at 1 January 2011</b>	<b>1,954,582</b>	<b>46,783</b>	<b>937,064</b>	<b>74,952</b>	<b>76,346</b>	<b>27,543</b>	<b>3,117,270</b>
Provision/(reversal of provision) during the year	1,822	(44,705)	146,120	35,619	(3,723)	(17,216)	117,917
Sale of loans	-	-	-	-	(9,464)	-	(9,464)
Loans written off during the year as uncollectable	(224,130)	-	-	(200)	(28,262)	(132)	(252,724)
Reversal of provision at the disposal of loan	(25,376)	-	-	-	-	-	(25,376)
<b>Allowance for impairment of loan portfolio at 31 December 2011</b>	<b>1,706,898</b>	<b>2,078</b>	<b>1,083,184</b>	<b>110,371</b>	<b>34,897</b>	<b>10,195</b>	<b>2,947,623</b>

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**9. Loans to customers (Continued)**

Analysis of the allowance for impairment of the loan portfolio by class and provisioning rate as at 31 December 2011 is as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	1,470,770	2,078	646,215	4,187	10,708	5,216	2,139,174
Allowance recognised for loans collectively determined to be impaired	194,312	-	424,634	101,638	14,685	4,762	740,031
Allowance recognised on collective basis for loans without specific sign of impairment	41,816	-	12,335	4,546	9,504	217	68,418
<b>Total recognised allowance for loan impairment</b>	<b>1,706,898</b>	<b>2,078</b>	<b>1,083,184</b>	<b>110,371</b>	<b>34,897</b>	<b>10,195</b>	<b>2,947,623</b>
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	3,061,492	2,078	1,417,686	7,439	15,804	6,280	4,510,779
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	387,114	-	857,242	183,382	24,744	4,930	1,457,412
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	11,062,119	-	1,072,888	534,541	1,004,061	143,425	13,817,034
<b>Gross amount of loans before deducting any impairment allowance</b>	<b>14,510,725</b>	<b>2,078</b>	<b>3,347,816</b>	<b>725,362</b>	<b>1,044,609</b>	<b>154,635</b>	<b>19,785,225</b>
Provisioning rate for individually impaired loans	48%	100%	46%	56%	68%	83%	47%
Provisioning rate for collectively impaired loans	50%	-	50%	55%	59%	97%	51%
Provisioning rate for loans without specific sign of impairment	0%	-	1%	1%	1%	0%	0%

## **9. Loans to customers (Continued)**

### *Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions: securities;
- for commercial lending: charges over real estate property, inventory and trade receivables, rights to claim from deposit;
- for retail lending: property rights for movable and immovable property, rights to claim from deposit.

The Group also obtains guarantees from parent companies of its borrowers for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2013, loans at carrying value of UAH 558,252 thousand (2012: UAH 554,378 thousand; 2011: UAH 642,308 thousand) were collateralised by customer deposits with the Group amounted to UAH 640,582 thousand (2012: UAH 449,891 thousand; 2011: UAH 391,664 thousand) (Note 15).

### *Credit quality of the loan portfolio*

The loan portfolio quality is managed by using the Group's internal credit ratings. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Group use those information about corporate borrowers for the sake of assigning credit rating: existing of high grade cash collateral and rating assigned by internal rating model.

The following data is analyzed by the Group while determining borrower's rate:

- first class collateral pledged;
- rate, calculated under internal rating model.

**High rating** (loans under first class collateral) is determined as follows: expanding of operating activity, stable financial position (sufficient share capital, low dependency of external sources of financing), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position. These are entities with highly effective management organisational structure. The risk of the decrease in credit quality of the borrower is minimal, credit history is excellent.

**Standard rating** is assigned to the borrowers with stable volumes of operating activity, with performance effectiveness at industry average level or above. The dependency of external sources of financing is not critical. The entities with standard rating have stable market position at the regional and national level. These are entities with adequate management and organisational structure. The risk of default is insignificant. Credit history is positive, with insignificant technical delays in repayment of borrowings.

**Below standard rating** is assigned to the borrowers with unstable or decreasing operational activities, low business efficiency, high dependency of external sources of financing. The risk of default should be considered in case of the decrease of available operating cash flows. Credit history may contain significant delays in repayment of borrowings. Market position is not stable, the decrease or loss of market share is possible.

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**9. Loans to customers (Continued)**

The description of internal credit ratings used by the Group for retail borrowers is provided below.

**High rating** is assigned to the borrowers with strong financial position. Credit quality and solvency are more than sufficient for the loan servicing. Risk of the decrease in credit quality is minimal.

**Standard rating** is assigned to the borrowers with stable financial position. Credit quality and solvency are sufficient for the loan servicing. The risk of default is insignificant.

**Below standard rating** is assigned to the borrowers with unstable or worsening financial position. Credit quality and solvency are marginally sufficient for the loan servicing. The risk of default should be considered in case of any negative impact of external factors on the cash flows available for the repayment of credit exposure.

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

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
<i>Neither past due nor impaired</i>						
high rating	6,938,486	355,540	203,370	2,791,380	617,644	10,906,420
standard rating	4,486,514	114,124	97,143	58,393	4,906	4,761,080
below standard rating	3,203,527	71,885	15,016	30,687	9,471	3,330,586
<b>Total neither past due nor impaired</b>	<b>14,628,527</b>	<b>541,549</b>	<b>315,529</b>	<b>2,880,460</b>	<b>632,021</b>	<b>18,998,086</b>
<i>Past due but not impaired</i>						
- less than 30 days overdue	641,231	43,795	11,516	47,820	6,307	750,669
- 30 to 90 days overdue	-	9,466	3,234	13,665	2,191	28,556
- more than 360 days overdue	8,404	-	-	-	-	8,404
<b>Total past due but not impaired</b>	<b>649,635</b>	<b>53,261</b>	<b>14,750</b>	<b>61,485</b>	<b>8,498</b>	<b>787,629</b>
<i>Loans determined to be impaired individually or collectively</i>						
- less than 30 days overdue	1,007,569	84,365	74	128,421	17,852	1,238,281
- 30 to 90 days overdue	26,191	12,959	-	91,892	13,509	144,551
- 91 to 180 days overdue	40,541	12,330	4,430	91,640	13,061	162,002
- 181 to 360 days overdue	110,159	327,285	4,770	125,555	16,472	584,241
- more than 360 days overdue	1,303,270	1,203,248	116,467	52,985	1,296	2,677,266
<b>Loans determined to be impaired individually or collectively</b>	<b>2,487,730</b>	<b>1,640,187</b>	<b>125,741</b>	<b>490,493</b>	<b>62,190</b>	<b>4,806,341</b>
<b>Less allowance for impairment</b>	<b>(1,442,960)</b>	<b>(894,592)</b>	<b>(83,883)</b>	<b>(262,520)</b>	<b>(44,878)</b>	<b>(2,728,833)</b>
<b>Total loans to customers</b>	<b>16,322,932</b>	<b>1,340,405</b>	<b>372,137</b>	<b>3,169,918</b>	<b>657,831</b>	<b>21,863,223</b>

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**9. Loans to customers (Continued)**

Analysis by credit quality of loans outstanding as at 31 December 2012 is as follows:

	<b>Corporate loans</b>	<b>Mortgage loans</b>	<b>Car loans</b>	<b>Consumer loans</b>	<b>Other loans to individuals</b>	<b>Total</b>
<i>Neither past due nor impaired</i>						
high rating	4,337,274	522,870	279,012	1,852,698	247,902	7,239,756
standard rating	5,588,660	160,715	107,882	13,452	16,697	5,887,406
below standard rating	2,317,345	50,773	3,686	6,720	185	2,378,709
<b>Total neither past due nor impaired</b>	<b>12,243,279</b>	<b>734,358</b>	<b>390,580</b>	<b>1,872,870</b>	<b>264,784</b>	<b>15,505,871</b>
<i>Past due but not impaired</i>						
- less than 30 days overdue	38,047	61,618	18,792	31,572	2,694	152,723
- 30 to 90 days overdue	-	23,635	7,617	6,099	2,158	39,509
- 181 to 360 days overdue	7,202	-	-	-	-	7,202
- more than 360 days overdue	11,550	-	-	-	-	11,550
<b>Total past due but not impaired</b>	<b>56,799</b>	<b>85,253</b>	<b>26,409</b>	<b>37,671</b>	<b>4,852</b>	<b>210,984</b>
<i>Loans determined to be impaired individually or collectively</i>						
- less than 30 days overdue	1,096,168	132,988	-	70,235	9,216	1,308,607
- 30 to 90 days overdue	118,097	382,585	-	44,801	5,873	551,356
- 91 to 180 days overdue	102,318	21,429	5,299	38,730	4,807	172,583
- 181 to 360 days overdue	76,221	152,682	9,344	63,483	7,897	309,627
- more than 360 days overdue	1,696,818	1,458,978	174,640	22,924	4,388	3,357,748
<b>Loans determined to be impaired individually or collectively</b>	<b>3,089,622</b>	<b>2,148,662</b>	<b>189,283</b>	<b>240,173</b>	<b>32,181</b>	<b>5,699,921</b>
<b>Less allowance for impairment</b>	<b>(1,670,724)</b>	<b>(1,169,133)</b>	<b>(138,174)</b>	<b>(130,171)</b>	<b>(29,055)</b>	<b>(3,137,257)</b>
<b>Total loans to customers</b>	<b>13,718,976</b>	<b>1,799,140</b>	<b>468,098</b>	<b>2,020,543</b>	<b>272,762</b>	<b>18,279,519</b>

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**9. Loans to customers (Continued)**

Analysis by credit quality of loans outstanding as at 31 December 2011 is as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
<i>Neither past due nor impaired</i>							
high rating	4,059,034	-	671,726	339,087	391,780	124,704	5,586,331
standard rating	4,372,130	-	256,624	152,557	577,502	17,466	5,376,279
below standard rating	2,500,153	-	62,051	8,901	79	136	2,571,320
<b>Total neither past due nor impaired</b>	<b>10,931,317</b>	<b>-</b>	<b>990,401</b>	<b>500,545</b>	<b>969,361</b>	<b>142,306</b>	<b>13,533,930</b>
<i>Past due but not impaired</i>							
- less than 30 days overdue	85,691	-	60,251	22,427	34,540	815	203,724
- 30 to 90 days overdue	28,308	-	22,236	11,569	160	304	62,577
- 91 to 180 days overdue	15,836	-	-	-	-	-	15,836
- more than 360 days overdue	967	-	-	-	-	-	967
<b>Total past due but not impaired</b>	<b>130,802</b>	<b>-</b>	<b>82,487</b>	<b>33,996</b>	<b>34,700</b>	<b>1,119</b>	<b>283,104</b>
<i>Loans determined to be impaired individually or collectively</i>							
- less than 30 days overdue	1,554,064	-	598,029	935	-	-	2,153,028
- 30 to 90 days overdue	52,573	-	26,414	64	20,254	4,826	104,131
- 91 to 180 days overdue	177,254	-	54,458	6,871	9,061	1,135	248,779
- 181 to 360 days overdue	150,616	-	140,293	16,259	6,895	647	314,710
- more than 360 days overdue	1,514,099	2,078	1,455,734	166,692	4,338	4,602	3,147,543
<b>Loans determined to be impaired individually or collectively</b>	<b>3,448,606</b>	<b>2,078</b>	<b>2,274,928</b>	<b>190,821</b>	<b>40,548</b>	<b>11,210</b>	<b>5,968,191</b>
<b>Less allowance for impairment</b>	<b>(1,706,898)</b>	<b>(2,078)</b>	<b>(1,083,184)</b>	<b>(110,371)</b>	<b>(34,897)</b>	<b>(10,195)</b>	<b>(2,947,623)</b>
<b>Total loans to customers</b>	<b>12,803,827</b>	<b>-</b>	<b>2,264,632</b>	<b>614,991</b>	<b>1,009,712</b>	<b>144,440</b>	<b>16,837,602</b>

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**9. Loans to customers (Continued)**

*Concentration of loans to customers*

As at 31 December 2013, the Group's 20 largest borrowers, with aggregate loan amount of UAH 6,286,314 thousand, represented 25% of the gross loan portfolio (2012: UAH 5,304,357 thousand and 25% respectively; 2011: UAH 5,221,598 thousand and 26% respectively).

The loan portfolio of the Bank by economic sectors, the credit risk of which has an impact on the credit quality, is as follows:

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Individuals	6,826,164	6,027,076	5,272,422
Food industry and agriculture	4,716,283	3,322,913	4,048,274
Trade and agency services	4,162,186	4,063,341	2,705,149
Property development	3,071,537	3,131,360	2,925,752
Non-banking financial institutions	1,187,601	632,447	800,526
Machine building	1,151,503	1,176,430	1,049,142
Transport, communication and infrastructure	1,138,732	669,424	832,120
Metallurgy	755,666	1,062,654	470,444
Woodworking	554,854	506,572	531,806
Mining	413,723	126,442	166,172
Chemical	135,240	179,468	373,645
Other	478,567	518,649	609,773
<b>Total loans to customers (gross amount)</b>	<b>24,592,056</b>	<b>21,416,776</b>	<b>19,785,225</b>

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

As at 31 December 2013, included in loans to customers were loans with the carrying value before the allowance of UAH 1,210,290 thousand (2012: UAH 1,785,609 thousand; 2011: UAH 923,253 thousand) placed as collateral for loans received from the NBU (Note 13).

The financial effect of collateral is presented by disclosing collateral values separately for:

- those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and
- those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").



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**9. Loans to customers (Continued)**

Effect of collateral as at 31 December 2013 is as follows:

	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	<b>Carrying value net of allowance</b>	<b>Fair value of collateral</b>	<b>Carrying value net of allowance</b>	<b>Fair value of collateral</b>
Corporate loans	11,231,707	21,166,668	5,091,225	2,145,186
Mortgage loans	1,117,496	2,112,300	222,909	153,008
Consumer loans	798	1,975	3,169,120	-
Car loans	341,490	815,463	30,647	2,121
Other loans (overdrafts)	26,200	71,758	631,631	6
<b>Total</b>	<b>12,717,691</b>	<b>24,168,164</b>	<b>9,145,532</b>	<b>2,300,321</b>

Effect of collateral as at 31 December 2012 is as follows:

	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	<b>Carrying value net of allowance</b>	<b>Fair value of collateral</b>	<b>Carrying value net of allowance</b>	<b>Fair value of collateral</b>
Corporate loans	9,729,161	18,967,429	3,989,815	2,601,067
Mortgage loans	1,231,506	2,452,334	567,634	329,214
Car loans	431,555	966,944	36,543	3,553
Consumer loans	1,012	2,409	1,979,370	-
Other loans (overdrafts)	19,436	88,729	293,487	-
<b>Total</b>	<b>11,412,670</b>	<b>22,477,845</b>	<b>6,866,849</b>	<b>2,933,834</b>

Effect of collateral as at 31 December 2011 is as follows:

	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	<b>Carrying value net of allowance</b>	<b>Fair value of collateral</b>	<b>Carrying value net of allowance</b>	<b>Fair value of collateral</b>
Corporate loans	10,241,118	20,465,785	2,562,709	1,689,212
Mortgage loans	1,388,859	2,270,813	875,773	770,848
Consumer loans	291,780	537,122	625,296	213,511
Car loans	176	360	707,451	-
Other loans (overdrafts)	-	-	144,440	-
<b>Total</b>	<b>11,921,933</b>	<b>23,274,080</b>	<b>4,915,669</b>	<b>2,673,571</b>

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**10. Investment securities**

**Investment securities in the trading portfolio**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Ukrainian Government debt securities	346,387	373,793	-
<b>Total investment securities in the trading portfolio</b>	<b>346,387</b>	<b>373,793</b>	<b>-</b>

Investment securities in the trading portfolio are rated B-.

**Investment securities available for sale**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Ukrainian Government debt securities	2,351,583	2,875,298	2,072,095
Deposit certificates issued by the NBU	400,022	-	1,998,148
Including accrued interest income	22	-	-
Corporate bonds	86,898	141,325	100,637
<b>Total debt securities</b>	<b>2,838,503</b>	<b>3,016,623</b>	<b>4,170,880</b>
Shares	7,057	7,057	7,057
<b>Total investment securities available for sale</b>	<b>2,845,560</b>	<b>3,023,680</b>	<b>4,177,937</b>

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

	<b>Ukrainian Government debt securities</b>	<b>Deposit certificates issued by the NBU</b>	<b>Corporate bonds</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
- B- to B+ rated	2,351,583	400,022	2,087	2,753,692
- Unrated	-	-	83,292	83,292
<b>Total neither past due nor impaired</b>	<b>2,351,583</b>	<b>400,022</b>	<b>85,379</b>	<b>2,836,984</b>
Balances individually determined to be impaired				
- more than 360 days overdue	-	-	1,519	1,519
<b>Total individually impaired securities</b>	<b>-</b>	<b>-</b>	<b>1,519</b>	<b>1,519</b>
<b>Total debt securities</b>	<b>2,351,583</b>	<b>400,022</b>	<b>86,898</b>	<b>2,838,503</b>

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**10. Investment securities (Continued)**

Analysis by credit quality of debt securities outstanding as at 31 December 2012 is as follows:

	<b>Ukrainian Government debt securities</b>	<b>Corporate bonds</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- B- to B+ rated	2,875,298	-	2,875,298
- Unrated	-	139,806	139,806
<b>Total neither past due nor impaired</b>	<b>2,875,298</b>	<b>139,806</b>	<b>3,015,104</b>
Balances individually determined to be impaired			
- more than 360 days overdue	-	1,519	1,519
<b>Total individually impaired securities</b>	<b>-</b>	<b>1,519</b>	<b>1,519</b>
<b>Total debt securities</b>	<b>2,875,298</b>	<b>141,325</b>	<b>3,016,623</b>

Analysis by credit quality of debt securities outstanding as at 31 December 2011 is as follows:

	<b>Ukrainian Government debt securities</b>	<b>Deposit certificates issued by the NBU</b>	<b>Corporate bonds</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
- B- to B+ rated	2,072,095	1,998,148	-	4,070,243
- Unrated	-	-	98,864	98,864
<b>Total neither past due nor impaired</b>	<b>2,072,095</b>	<b>1,998,148</b>	<b>98,864</b>	<b>4,169,107</b>
Balances individually determined to be impaired				
- more than 360 days overdue	-	-	1,773	1,773
<b>Total individually impaired securities</b>	<b>-</b>	<b>-</b>	<b>1,773</b>	<b>1,773</b>
<b>Total debt securities</b>	<b>2,072,095</b>	<b>1,998,148</b>	<b>100,637</b>	<b>4,170,880</b>

The credit ratings for Ukrainian Government debt securities' issuers and deposit certificates issued by the NBU are based on sovereign country rating, and credit rank of corporate bonds issuers – on ratings assigned by international rating agencies Fitch, Moody's and S&P.

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

As at 31 December 2013, the Ukrainian Government debt securities include state treasury bonds with the final maturity dates from 29 January 2014 to 8 July 2020 and the effective interest rates from 5% to 20% p.a., and deposit certificates issued by the NBU with the final maturity date 3 January 2014 and effective interest rate of 2% p.a.

As at 31 December 2013, corporate bonds include bonds issued by corporate entities with the final maturity dates from 10 November 2014 to 2 July 2018 and overdue bonds. The corporate bonds carry effective interest rates from 11% to 20% p.a.

As at 31 December 2013, debt securities with a carrying amount of UAH 177,999 thousand (2012: UAH 85,024 thousand; 2011: nil) were pledged as collateral for the loans received from the NBU, and debt securities at carrying value of UAH 305,778 thousand (2012: nil; 2011: nil) were pledged as collateral for loans received from the NBU under “repo” deals terms (Note 14.)

As at 31 December 2013, debt securities with a carrying amount of UAH 63,137 thousand (2012: nil; 2011: nil) were pledged as collateral for loans received from other banks under “repo” deals terms (Note 14.)

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**11. Property and equipment, investment property and intangible assets**

	Premises	Lease- hold improve- ments	Works of arts	Compu- ters and other equip- ment	Capital invest- ments in property and equip- ment	Total property and equipment	Intangible assets	Total
<b>Carrying amount at 31 December 2011 (restated)</b>	<b>1,103,387</b>	<b>12,358</b>	<b>2,813</b>	<b>155,452</b>	<b>14,231</b>	<b>1,288,241</b>	<b>66,907</b>	<b>1,355,148</b>
Cost or revalued amount at 31 December 2011	1,335,019	41,454	2,813	443,426	14,231	1,836,943	131,009	1,967,952
Accumulated depreciation and amortisation	(231,632)	(29,096)	-	(287,974)	-	(548,702)	(64,102)	(612,804)
<b>Carrying amount at 1 January 2012 (restated)</b>	<b>1,103,387</b>	<b>12,358</b>	<b>2,813</b>	<b>155,452</b>	<b>14,231</b>	<b>1,288,241</b>	<b>66,907</b>	<b>1,355,148</b>
Additions	-	-	-	72,618	13,568	86,186	59,033	145,219
Disposals/write-offs	-	(627)	-	(5,949)	-	(6,576)	(4,131)	(10,707)
Transfers to another category	6,385	7,817	-	1,279	(15,481)	-	-	-
Transfers to investment property	(27,618)	-	-	-	-	(27,618)	-	(27,618)
Transfers from investment property	16,656	-	-	-	-	16,656	-	16,656
Revaluation	-	-	6,295	-	-	6,295	-	6,295
Depreciation and amortisation charge	(26,143)	(7,731)	-	(65,273)	-	(99,147)	(23,596)	(122,743)
<b>Carrying amount at 31 December 2012 (restated)</b>	<b>1,072,667</b>	<b>11,817</b>	<b>9,108</b>	<b>158,127</b>	<b>12,318</b>	<b>1,264,037</b>	<b>98,213</b>	<b>1,362,250</b>
Cost or revalued amount at 31 December 2012	1,333,068	42,943	9,108	485,663	12,318	1,883,100	181,431	2,064,531
Accumulated depreciation and amortisation	(260,401)	(31,126)	-	(327,536)	-	(619,063)	(83,218)	(702,281)
<b>Carrying amount at 31 December 2012 (restated)</b>	<b>1,072,667</b>	<b>11,817</b>	<b>9,108</b>	<b>158,127</b>	<b>12,318</b>	<b>1,264,037</b>	<b>98,213</b>	<b>1,362,250</b>
Additions	5,301	2,896	-	56,744	22,215	87,156	85,901	173,057
Disposals/write-offs	(3,176)	(106)	-	(650)	(3,725)	(7,657)	(288)	(7,945)
Transfers to another category	-	3,314	-	17,910	(21,224)	-	-	-
Transfers from investment property	1,242	-	-	-	-	1,242	-	1,242
Depreciation and amortisation charge	(24,893)	(7,235)	-	(65,654)	-	(97,782)	(33,610)	(131,392)
<b>Carrying amount at 31 December 2013</b>	<b>1,051,141</b>	<b>10,686</b>	<b>9,108</b>	<b>166,477</b>	<b>9,584</b>	<b>1,246,996</b>	<b>150,216</b>	<b>1,397,212</b>
Cost or revalued amount at 31 December 2013	1,330,142	46,328	9,108	549,053	9,584	1,944,215	264,917	2,209,132
Accumulated depreciation and amortisation	(279,001)	(35,642)	-	(382,576)	-	(697,219)	(114,701)	(811,920)
<b>Carrying amount at 31 December 2013</b>	<b>1,051,141</b>	<b>10,686</b>	<b>9,108</b>	<b>166,477</b>	<b>9,584</b>	<b>1,246,996</b>	<b>150,216</b>	<b>1,397,212</b>

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**11. Property and equipment, investment property and intangible assets (Continued)**

As at 31 December 2013, the Group's own premises, furniture, equipment, leasehold improvements and ATMs, with a net book value of UAH 1,203,992 thousand (2012: UAH 1,237,234 thousand; 2011: UAH 836,005 thousand), were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

As at 31 December 2013, the Group's premises with a carrying value of UAH 722,333 thousand (2012: UAH 734,972 thousand; 2011: UAH 757,737 thousand) and investment property with a carrying value of UAH 27,388 thousand (2012: UAH 25,985 thousand; 2011: UAH 18,952 thousand) were pledged as collateral for loans received from the NBU (Note 13.)

As at 31 December 2013, the carrying amount of premises and works of art would have been UAH 452,212 thousand (2012: UAH 460,039 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying value of the premises as follows:

	<b>2012</b>	<b>2011 (restated)</b>
Premises at revalued amount in the consolidated statement of financial position	1,051,141	1,072,667
Revaluation reserve presented in equity, net of tax	(592,189)	(604,952)
Deferred tax liability on revaluation of premises	(9,560)	(10,496)
<b>Premises at cost less accumulated depreciation and impairment</b>	<b>449,392</b>	<b>457,219</b>
Works of art at revalued amount in the consolidated statement of financial position	9,108	9,108
Revaluation reserve on works of art presented in equity, net of tax	(5,282)	(5,282)
Deferred tax liability on revaluation of works of art	(1,006)	(1,006)
<b>Works of art at cost less accumulated depreciation and impairment</b>	<b>2,820</b>	<b>2,820</b>
<b>Total</b>	<b>452,212</b>	<b>460,039</b>

For the sensitivity analysis of the fair value of premises before changes in the key assumptions used during the valuation, refer to Note 5.

Changes in carrying value of investment property were as follows:

	<b>2013</b>	<b>2012 (restated)</b>
<b>Fair value of investment property at 1 January</b>	<b>81,648</b>	<b>70,667</b>
Transfer to owner-occupied premises	(35,823)	(16,656)
Transfer from owner-occupied premises	34,581	27,618
Fair value gains	13,517	19
Fair value losses	(10,984)	-
<b>Fair value of investment property at 31 December</b>	<b>82,939</b>	<b>81,648</b>

The rental income received in respect of investment property for 2013 amounted to UAH 8,414 thousand (2012: UAH 5,825 thousand) (Note 26.) The operating and maintenance expenses related to investment property for 2013 were UAH 3,165 thousand (2012: UAH 1,942 thousand.)

The fair value gains less losses on investment property of UAH 2,533 thousand (2012: gains less losses of UAH 19 thousand) were recognised in the consolidated statement of income.

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**12. Other assets**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
<b>Financial assets</b>			
Settlements on card operations	106,684	65,308	36,475
Derivative financial assets (Note 21)	86,074	8,789	35,394
Purchase of foreign currency	26,979	10,950	9,412
Settlements on cooperation agreements	22,860	17,305	-
Receivables on loans sold	-	-	23,269
Receivables on transactions with securities	-	-	8,807
Other financial assets	18,773	7,813	18,346
Allowance for impairment	(7,528)	(4,302)	(10,506)
<b>Total financial assets</b>	<b>253,842</b>	<b>105,863</b>	<b>121,197</b>
<b>Non-financial assets</b>			
Reposessed real estate	222,639	99,735	62,540
Other reposessed tangible assets	-	-	1,989
Precious metals	26,606	47,362	37,203
Prepayments for services	9,561	8,065	-
Prepayments for property and equipment and intangible assets	2,837	24,151	31,149
Receivables on purchased precious metals	-	-	23,098
Other	23,997	28,930	48,248
Allowance for impairment	(674)	(362)	(792)
<b>Total non-financial assets</b>	<b>284,966</b>	<b>207,881</b>	<b>203,435</b>
<b>Total other assets</b>	<b>538,808</b>	<b>313,744</b>	<b>324,632</b>

Reposessed collateral represents assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale due to their unlikely disposal within a year, and are classified as inventories in accordance with IAS 2 Inventories. The assets were initially recognised at fair value when acquired.

Movements in allowance for impairment of other financial assets during the year were as follows:

	<b>2013</b>	<b>2012</b> (restated)
<b>Allowance for impairment as at 1 January</b>	<b>4,302</b>	<b>10,506</b>
Impairment loss / (decrease of impairment) for the year	5,483	2,848
Assets written off during the year as uncollectible	(2,257)	(9,052)
<b>Allowance for impairment as at 31 December</b>	<b>7,528</b>	<b>4,302</b>

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**12. Other assets (Continued)**

Movements in allowance for impairment of other non-financial assets during the year were as follows:

	<b>2013</b>	<b>2012 (restated)</b>
<b>Allowance for impairment as at 1 January</b>	<b>362</b>	<b>792</b>
Impairment loss / (decrease of impairment) for the year	312	(430)
<b>Allowance for impairment as at 31 December</b>	<b>674</b>	<b>362</b>

**13. Due to the National Bank of Ukraine**

As at 31 December 2013, the Bank had two loans due to the National Bank of Ukraine.

In January 2009, the Group obtained a liquidity support loan of UAH 500,000 thousand. The loan had interest at 18.5% p.a. and final maturity date in December 2009. In December 2009, the maturity of the loan was extended until December 2012 with a change in interest rate to the official discount rate of the NBU + 2% p.a. In December 2012, the maturity of the loan was extended to December 2016. As at 31 December 2013, the carrying amount of this loan was UAH 262,494 thousand and interest at 8.5% p.a. (2012: UAH 349,992 thousand and 9.5% p.a. respectively; 2011: UAH 349,992 thousand and 9.75% p.a. respectively).

In March 2009, the Group obtained a further liquidity support loan of UAH 1,336,900 thousand. The loan had interest at 16.5% p.a. and final maturity in March 2010. In December 2009, the maturity of the loan was extended to April 2013 with a change in interest rate to the official discount rate of the NBU + 2% p.a. In December 2012, the maturity of the loan was extended to December 2016. As at 31 December 2013, the carrying value of the loan was UAH 499,621 thousand bearing 8.5% p.a. (2012 – UAH 666,161 thousand and 9.5% p.a. respectively; 2011: UAH 666,165 thousand bearing 9.75% p.a. respectively).

These loans are secured by loans to the Group's customers with a carrying amount of UAH 1,210,290 thousand (Note 9) and the Group's premises and investment property with a fair value of UAH 722,333 thousand and UAH 27,388 thousand respectively (Note 11), as well as debt securities with a carrying value of UAH 177,999 thousand (Note 10) (2012: loans to customers with a carrying amount of UAH 1,785,609 thousand and premises and investment property of the Group at carrying value of UAH 734,972 thousand and UAH 25,985 thousand respectively, as well as debt securities with a carrying value of UAH 85,024 thousand; 2011: loans to customers with a carrying amount of UAH 923,253 thousand and the Group's premises and investment property with a fair value of UAH 757,737 thousand and UAH 18,952 thousand respectively).

In addition, in December 2013 the Group attracted funds under “repo” deal terms. As at 31 December 2013 carrying value of mentioned funds amounted to UAH 300,801 thousand. Interest rate on attracted funds was 6.5% p.a., maturity term – in March 2014. To secure those loans securities at fair value of UAH 305,778 thousand were transferred to. (Note 10).

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**14. Due to other banks**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
<b><i>Current accounts of other banks</i></b>			
- Domestic	411,416	787,416	133,403
- Non-OECD countries	221	428	406
<b>Total current accounts of other banks</b>	<b>411,637</b>	<b>787,844</b>	<b>133,809</b>
<b><i>Term deposits of other banks</i></b>			
- Domestic	884,004	371,880	319,492
<b>Total term deposits of other banks</b>	<b>884,004</b>	<b>371,880</b>	<b>319,492</b>
<b><i>“Repo” agreements with other banks</i></b>			
- Domestic	57,310	-	-
<b>Total “repo” agreements with other banks</b>	<b>57,310</b>	<b>-</b>	<b>-</b>
<b>Total amounts due to other banks</b>	<b>1,352,951</b>	<b>1,159,724</b>	<b>453,301</b>

As at 31 December 2013, placements of 10 largest banks of UAH 1,071,220 thousand made 79% of total amounts due from other banks (2012: UAH 951,449 thousand, 82%; 2011 – UAH 406,873 thousand, 90%).

As at December 2013, term deposits of other banks contain UAH 524 thousand (2012: UAH 524 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 31) as well as UAH 3,194 thousand held as collateral for unconfirmed letters of credit.

As at 31 December 2013 amounts due to other banks attracted under “repo” terms were secured with investment securities at carrying value of UAH 63,137 thousand (2012: nil; 2011 – nil) (Note 10).

**15. Customer accounts**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
<b><i>Legal entities</i></b>			
- Current accounts	6,443,972	4,712,273	9,156,479
- Term deposits	3,260,333	2,680,157	2,452,493
<b><i>Individuals</i></b>			
- Current accounts	2,140,561	1,826,025	1,546,466
- Term deposits	9,222,689	8,462,388	7,142,211
<b>Total customer accounts</b>	<b>21,067,555</b>	<b>17,680,843</b>	<b>20,297,649</b>

As at 31 December 2013, the Group's 10 largest customers, with an aggregate amount of accounts of UAH 3,079,384 thousand represented 15% of customer accounts (2012: UAH 2,657,617 thousand or 15%; 2011: 1UAH 6,736,999 thousand or 33%).



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**15. Customer accounts (Continued)**

As at 31 December 2013, included in customer accounts were deposits of UAH 640,582 thousand (2012: UAH 449,891 thousand; 2011: UAH 391,664 thousand) held as part of collateral for loans to customers (Note 9) and credit related commitments with a carrying amount of UAH 196,533 thousand (2012: UAH 57,382 thousand; 2011: UAH 25,903 thousand). In addition, UAH 586,675 thousand (2012: UAH 48,549 thousand; 2011: UAH 167,628 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 31.)

In accordance with Ukrainian legislation, the Group is obliged to repay term deposits of individuals upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Economic sector concentrations within customer accounts are as follows:

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
Individuals	11,363,250	10,288,413	8,733,381
Trade and agency services	2,173,444	1,434,943	2,105,232
Mining and energy	1,622,630	733,845	415,238
Metallurgy	1,028,532	1,155,763	5,196,494
Transport and infrastructure	886,419	974,107	939,688
Property development	592,284	321,622	338,144
Machine building	576,763	1,018,180	890,967
Non-banking financial institutions	373,869	330,783	267,059
Food industry and agriculture	276,657	179,707	82,830
Chemical	162,990	156,367	159,349
Woodworking	60,940	51,875	106,872
Other	1,949,777	1,035,238	1,062,395
<b>Total customer accounts</b>	<b>21,067,555</b>	<b>17,680,843</b>	<b>20,297,649</b>

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**16. Eurobonds issued**

In February and May 2007, the Group obtained a loan amounting to USD 275,000 thousand from Standard Bank Plc being UAH 1,388,570 thousand in the equivalent as at the receipt date. This loan with original maturity in February 2010 was funded by 9.75% loan participation notes ("Eurobonds") issued by, but without recourse to, Standard Bank Plc, for the sole purpose of funding the loan to the Group.

In December 2009, as a result of restructuring of the Group's borrowings, the loan was replaced by the loan with interest rate of 11% p.a. and the final maturity term in December 2014. During 2010, the Group repaid part of the loan in the amount of USD 22,512 thousand being UAH 179,828 thousand in the equivalent as at repayment date. As at 31 December 2013, the carrying amount of this loan was UAH 1,989,283 thousand (2012: UAH 1,972,640 thousand; 2011: UAH 1,959,340 thousand).

**17. Bonds issued**

In April 2008, the Group issued hryvnia denominated Series B bonds for the total nominal amount of UAH 300,000 thousand. The interest rate was initially at 13.5% p.a. and changed in 2010 to 17%.

In 2009, the Group repaid before maturity Series B bonds with a total nominal amount of UAH 284,566 thousand and in 2010, Series B bonds with a total nominal amount of UAH 1,915 thousand.

In 2011, the Group's Supervisory Board decided to extend the maturity of the Series B bonds issued and approved new redemption and repayment dates. The term to maturity was extended to 3 April 2014 inclusive.

The interest rate for these bonds was set at 13.75% for a two-year period starting from April 2011; the interest rate commencing from April 2013 is set at 16% p.a.

	<b>2013</b>		<b>2012</b>		<b>2011</b>	
	<b>Nominal value</b>	<b>Carrying value</b>	<b>Nominal value</b>	<b>Carrying value</b>	<b>Nominal value</b>	<b>Carrying value</b>
Series B bonds issued	105	109	105	108	105	108
<b>Total bonds issued</b>	<b>105</b>	<b>109</b>	<b>105</b>	<b>108</b>	<b>105</b>	<b>108</b>

**18. Other borrowed funds**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
DF Deutsche Forfait s.r.o	40,961	-	-
Landesbank Berlin AG	34,031	49,605	80,065
Deutsche Bank	9,757	27,968	45,753
HSBC Bank Plc	-	-	232,354
Інші кредити	6,190	17,064	27,894
<b>Total other borrowed funds</b>	<b>90,939</b>	<b>94,637</b>	<b>386,066</b>

Loan from DF Deutsche Forfait s.r.o is denominated in USD and bears interest at 7% p.a. on the outstanding amount with maturity on 7 August 2014. Interests are accrued on outstanding amount of the loans.

Loans from Landesbank Berlin AG are denominated in Euros and bear interest at a weighted average rate of EURIBOR + 0.6% p.a. on the outstanding amount with maturity from 30 May 2014 to 6 September 2018. Interests are accrued on outstanding amount of the loans. The loans were received for the purpose of financing the acquisition of the imported equipment by the Group's customers.

Loans from Deutsche Bank are denominated in Euros and bear interest at a weighted average rate of EURIBOR + 0.7% p.a. on the outstanding amount with maturity on 12 February 2014. Interests are accrued on outstanding amount of the loans. The loans were received for the purpose of financing the acquisition of the imported equipment by the Group's customers. On the date of approval of these consolidated financial statements loan was repaid in full amount.

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**18. Other borrowed funds (continued)**

Other facilities represent the funds received from other banks for the purposes of financing the acquisition of the imported equipment by the Group's customers. These facilities are denominated in US dollars and bear interest at a weighted average rate of LIBOR + 5% p.a. with maturity from 10 January 2014 to 31 December 2014. Interests are accrued on outstanding amount of the loans.

**19. Other liabilities**

	<b>2013</b>	<b>2012</b> (restated)	<b>2011</b> (restated)
<b>Financial liabilities</b>			
Payable under operations with plastic cards	58,846	11,227	4,553
Amounts in the course of settlements	56,416	6,158	2,306
Derivative financial liabilities (Note 21)	48,564	1,856	19,808
Deferred income on credit lines	26,797	-	-
Provision for credit related commitments (Note 31)	2,488	5,160	1,638
Other financial liabilities	9,011	6,299	12,111
<b>Total financial liabilities</b>	<b>202,122</b>	<b>30,700</b>	<b>40,416</b>
<b>Non-financial liabilities</b>			
Amounts payable to employees	108,567	98,000	76,376
Other taxes payable	25,843	19,587	12,961
Amounts payable for services	9,398	-	-
Cost of software payable under licensing agreements	2,097	4,106	7,666
Other accruals and deferred income	12,565	15,115	6,158
<b>Total non-financial liabilities</b>	<b>158,470</b>	<b>136,808</b>	<b>103,161</b>
<b>Total other liabilities</b>	<b>360,592</b>	<b>167,508</b>	<b>143,577</b>

**20. Subordinated debt**

As at 31 December 2013 the Group had three deposits and one loan attracted under subordinated loan terms.

First subordinated loan in UAH was attracted by the Group in 2009 in the amount of UAH 127,300 thousand carrying an interest rate of 12.75% p.a. and maturing in November 2014. As at 31 December 2013, the carrying amount of this subordinated debt was UAH 128,647 thousand (2012: UAH 128,590 thousand; 2011: UAH 128,681 thousand).

Second subordinated loan was attracted by the Group in 2009 in the amount of UAH 135,000 thousand at carrying value of UAH 136,429 thousand as at 31 December 2013 (2012: carrying value of UAH 136,368 thousand; 2011: carrying value of UAH 136,465 thousand) bearing 12.75% p.a. and maturing in November 2014.

Third subordinated loan was attracted by the Group in 2008 in the amount of USD 14,000 (UAH 70,700 thousand at the exchange rate as at the date of issue), bearing fixed 6% p.a. during first two years and floating LIBOR +5% during following eight years. The loan should have been repaid in full until 28 February 2018 with equal annual payments commencing from 2013. In 2010 the Group received a permission for prescheduled repayment of a part of the subordinated loan and should further repay the loan starting from 2016. As at 31 December 2013 carrying value of the attraction amounted to UAH 42,777 thousand (2012: UAH 41,092 thousand; 2011: UAH 39,766 thousand).

Fourth subordinated loan was attracted by the Group in 2009 in the amount of UAH 220,000 thousand carrying an interest rate of 9.5% p.a. and maturing in October 2015. As at 31 December 2013 carrying value of the loan amounted to UAH 221,309 thousand (2012: UAH 221,574 thousand; 2011: UAH 221,682 thousand).

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**21. Derivative financial instruments**

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities.

The Group had outstanding foreign exchange contracts with banks as at 31 December 2013:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
<b>Forward currency contracts</b>				
Placement of USD / Attraction of EUR	322,121	(323,198)	25	(1,102)
Placement of UAH / Attraction of USD	753,391	(719,564)	33,827	-
Placement of EUR / Attraction of USD	189,435	(189,456)	-	(21)
<b>Total on forward currency contracts</b>	<b>1,264,947</b>	<b>(1,232,218)</b>	<b>33,852</b>	<b>(1,123)</b>
<b>Currency swap contracts</b>				
To buy USD	2,768,527	(2,716,539)	51,988	-
To buy EUR	11,041	(10,807)	234	-
To sell USD	2,461,229	(2,505,006)	-	(43,777)
To sell EUR	84,258	(86,878)	-	(2,620)
<b>Total on currency swap contracts</b>	<b>5,325,055</b>	<b>(5,319,230)</b>	<b>52,222</b>	<b>(46,397)</b>
<b>Commodity swap contracts</b>				
To sell XAU	23,698	(24,357)	-	(659)
<b>Total on commodity swap contracts</b>	<b>23,698</b>	<b>(24,357)</b>	<b>-</b>	<b>(659)</b>
<b>Forward contracts on securities</b>				
To sell securities	1,367,348	(1,367,733)	-	(385)
<b>Total on forward contracts on securities</b>	<b>1,367,348</b>	<b>(1,367,733)</b>	<b>-</b>	<b>(385)</b>

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**21. Derivative financial instruments (Continued)**

The Group had outstanding foreign exchange contracts with banks as at 31 December 2012:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
<b>Forward currency contracts</b>				
Placement of USD / Attraction of EUR	550,254	(548,283)	2,126	(155)
Placement of UAH / Attraction of USD	383,266	(382,169)	1,097	-
Placement of USD / Attraction of GBP	25,780	(25,796)	-	(16)
Placement of EUR / Attraction of USD	560,664	(556,647)	5,560	(1,543)
Placement of UAH / Attraction of AUD	561	(555)	6	-
<b>Total on forward currency contracts</b>	<b>1,520,525</b>	<b>(1,513,450)</b>	<b>8,789</b>	<b>(1,714)</b>
<b>Currency swap contracts</b>				
To buy UAH	71,937	(71,937)	-	-
To buy RUB	13,111	(13,111)	-	-
To sell USD	290,222	(290,234)	-	(12)
To sell EUR	21,000	(21,130)	-	(130)
<b>Total on currency swap contracts</b>	<b>396,270</b>	<b>(396,412)</b>	<b>-</b>	<b>(142)</b>

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**21. Derivative financial instruments (Continued)**

The Group had outstanding foreign exchange contracts with banks as at 31 December 2011:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
<b>Forward currency contracts</b>				
Placement of USD / Attraction of EUR	914,811	(905,399)	9,412	-
Placement of EUR / Attraction of USD	498,940	(502,425)	-	(3,485)
Placement of EUR / Attraction of GBP	12,318	(12,319)	-	(1)
Placement of EUR / Attraction of CHF	5,914	(5,914)	-	-
<b>Total on forward currency contracts</b>	<b>1,431,983</b>	<b>(1,426,057)</b>	<b>9,412</b>	<b>(3,486)</b>
<b>Currency swap contracts</b>				
To buy UAH	7,987	(7,990)	-	(3)
To buy RUB	7,490	(7,590)	-	(100)
To buy EUR	892,892	(905,516)	-	(12,624)
To buy USD	1,030,845	(1,034,440)	-	(3,595)
To sell USD	2,328,290	(2,309,538)	18,752	-
To sell EUR	393,777	(386,605)	7,172	-
To sell RUB	3,801	(3,743)	58	-
<b>Total on currency swap contracts</b>	<b>4,665,082</b>	<b>4,655,422</b>	<b>25,982</b>	<b>(16,322)</b>
<b>Commodity swap contracts</b>				
To sell XAU	10,808	(10,451)	357	-
<b>Total on commodity swap contracts</b>	<b>10,808</b>	<b>(10,451)</b>	<b>357</b>	<b>-</b>

The resulting net fair value gain or loss was recorded in the gains less losses from financial derivatives in the consolidated statement of income.

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**22. Share capital**

As at 31 December 2013, the Group's authorised share capital comprises 14,323,880 ordinary shares with a nominal value of UAH 230. All shares have equal voting rights.

	Number of shares	Nominal amount	Inflation-adjusted amount
<b>At 31 December 2011</b>	<b>14,323,880</b>	<b>3,294,492</b>	<b>3,427,350</b>
<b>At 31 December 2012</b>	<b>14,323,880</b>	<b>3,294,492</b>	<b>3,427,350</b>
<b>At 31 December 2013</b>	<b>14,323,880</b>	<b>3,294,492</b>	<b>3,427,350</b>

As at 31 December 2013, all shares were fully paid and registered.

**23. Segment analysis**

Segment information for assets and liabilities of the reportable operating segments of the Group as at 31 December 2013 prepared based on information analysed by the management of the Group is set out below:

	Retail banking (VIP and wealth clients)	Corporate banking	Retail banking (mass segment)	Distressed assets management	Investment banking and unallocated	Total
<b>2013</b>						
<b>Segment assets</b>	<b>1,628,210</b>	<b>14,852,381</b>	<b>3,475,968</b>	<b>2,622,498</b>	<b>9,579,664</b>	<b>32,158,721</b>
including						
Loans to customers, net	1,628,210	14,852,381	3,073,206	2,309,426		21,863,223
- loans to customers, gross	1,708,681	14,960,375	3,283,838	4,639,162		24,592,056
- allowance	(80,471)	(107,994)	(210,632)	(2,329,736)	-	(2,728,833)
Other financial statements items	-	-	402,762	313,072	9,579,664	10,295,498
<b>Segment liabilities</b>	<b>11,164,359</b>	<b>9,698,403</b>	<b>394,203</b>	<b>-</b>	<b>5,330,228</b>	<b>26,587,193</b>
including						
Customer accounts	11,164,359	9,698,403	204,793	-	-	21,067,555
Other financial statements items	-	-	189,410	-	5,330,228	5,519,638

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**23. Segment analysis (Continued)**

Segment information for profit and loss of the reportable operating segments of the Group for 2013 analysed by the management of the Group is set out below:

	Corporate banking	Retail banking (VIP and wealth clients)	Retail banking (mass segment)	Distressed assets manageme nt	Investment banking and unallocated	Total
<b>2013</b>						
Interest income	1,698,290	403,634	861,785	195,461	413,704	<b>3,572,874</b>
Interest expense	(463,472)	(964,007)	(36,240)	-	(384,015)	<b>(1,847,734)</b>
Transfers	(557,494)	1,061,905	(296,209)	(472,945)	264,743	-
<b>Net interest income</b>	<b>677,324</b>	<b>501,532</b>	<b>529,336</b>	<b>(277,484)</b>	<b>294,432</b>	<b>1,725,140</b>
Net fee and commission income	176,985	201,766	303,847	-	92,457	<b>775,055</b>
Trading income	-	8,110	3,809	-	(20,792)	<b>(8,873)</b>
Operating expenses and other income/expenses	(315,010)	(521,047)	(392,837)	(31,539)	13,553	<b>(1,246,880)</b>
Allowances	(18,056)	(64,173)	(237,085)	(245,993)	9,234	<b>(556,073)</b>
<b>Segment result</b>	<b>521,243</b>	<b>126,188</b>	<b>207,070</b>	<b>(555,016)</b>	<b>388,884</b>	<b>688,369</b>
Income taxes	-	-	(32,865)	-	(100,751)	<b>(133,616)</b>
<b>Profit/(loss) for the year</b>	<b>521,243</b>	<b>126,188</b>	<b>174,205</b>	<b>(555,016)</b>	<b>288,133</b>	<b>554,753</b>

Segment information for assets and liabilities of the reportable operating segments of the Group as at 31 December 2012 prepared based on information analysed by the management of the Group is set out below:

	Retail banking (VIP and wealth clients)	Corporate banking	Retail banking (mass segment)	Distressed assets management	Investment banking and unallocated	Total
<b>2012</b>						
<b>Segment assets</b> including	<b>1,683,750</b>	<b>11,793,400</b>	<b>2,174,519</b>	<b>3,175,809</b>	<b>9,175,977</b>	<b>28,003,455</b>
Loans to customers, net	1,683,750	11,793,400	1,813,074	2,989,295	-	<b>18,279,519</b>
- loans to customers, gross	1,700,854	11,858,108	1,936,436	5,921,378	-	<b>21,416,776</b>
- allowance	(17,104)	(64,708)	(123,362)	(2,932,083)	-	<b>(3,137,257)</b>
Other financial statements items	-	-	361,445	186,514	9,175,977	<b>9,723,936</b>
<b>Segment liabilities</b> including	<b>10,158,469</b>	<b>7,373,051</b>	<b>421,370</b>	<b>-</b>	<b>4,725,746</b>	<b>22,678,636</b>
Customer accounts	10,158,469	7,373,051	149,323	-	-	<b>17,680,843</b>
Other financial statements items	-	-	272,047	-	4,725,746	<b>4,997,793</b>



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**23. Segment analysis (Continued)**

Segment information for profit and loss of the reportable operating segments of the Group for 2012 analysed by the management of the Group is set out below:

	Corporate banking	Retail banking (VIP and wealth clients)	Retail banking (mass segment)	Distressed assets manageme nt	Investment banking and unallocated	Total
<b>2012</b>						
<b>Interest income</b>	1,530,367	306,904	484,884	288,666	271,002	<b>2,881,823</b>
<b>Interest expense</b>	(438,397)	(698,051)	(7,746)	-	(461,053)	<b>(1,605,247)</b>
Transfers	(617,183)	772,203	(170,300)	(429,703)	444,983	-
<b>Net interest income</b>	474,787	381,056	306,838	(141,037)	254,932	<b>1,276,576</b>
<b>Net fee and commission income</b>	127,496	129,279	231,828	-	62,166	<b>550,769</b>
<b>Trading income</b>	599	9,453	356	-	24,367	<b>34,775</b>
<b>Operating expenses and other income/expenses</b>	(290,748)	(460,781)	(320,538)	(35,803)	(12,113)	<b>(1,119,983)</b>
Allowances	(42,189)	(68,253)	(124,916)	-	(79,707)	<b>(315,065)</b>
<b>Segment result</b>	269,945	(9,246)	93,568	(176,840)	249,645	<b>427,072</b>
Income taxes	-	-	(21,888)	-	(127,962)	<b>(149,850)</b>
<b>Profit/(loss) for the year</b>	269,945	(9,246)	71,680	(176,840)	121,683	<b>277,222</b>

Capital expenditure is not included into the segment information reviewed by the Management Board of the Group. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Revenues for each individual country are not reported to the chief operational decision maker as they are mainly represented by revenues from Ukraine, including revenues from off-shore companies of Ukrainian customers, based on the domicile of the customer. Revenues from other countries comprise interest income and fee and commission income and do not exceed 10% of total revenues of the Bank.

Capital expenditure comprising additions to non-current assets other than financial instruments is represented by assets located in Ukraine.

The Group has no customer for which the revenue represents 10% or more of the total revenues.

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**24. Interest income and expense**

	<b>2013</b>	<b>2012</b> (restated)
<b>Interest income</b>		
Loans to customers		
- legal entities	1,868,156	1,736,533
- individuals	1,247,276	810,080
Securities	367,992	311,079
Due from other banks	89,450	24,131
<b>Total interest income</b>	<b>3,572,874</b>	<b>2,881,823</b>
<b>Interest expense</b>		
Individuals		
- term deposits	(956,530)	(682,030)
- current accounts	(12,355)	(18,954)
Legal entities		
- term deposits	(247,805)	(275,679)
- current accounts	(215,126)	(158,040)
Eurobonds issued	(221,995)	(239,291)
Loans from the NBU	(80,228)	(97,351)
Subordinated debt	(58,458)	(76,661)
Due to other banks	(30,489)	(36,911)
Other borrowed funds	(24,631)	(20,316)
Bonds issued by the Group	(117)	(14)
<b>Total interest expense</b>	<b>(1,847,734)</b>	<b>(1,605,247)</b>
<b>Net interest income</b>	<b>1,725,140</b>	<b>1,276,576</b>

**25. Fee and commission income and expense**

	<b>2013</b>	<b>2012</b> (restated)
Payment cards	378,283	299,011
Servicing loans, including under cooperation agreements	363,081	230,434
Settlement transactions with customers	128,186	74,793
Conversion operations	88,595	67,981
Documentary operations	66,273	38,738
Cash deposits and withdrawals	24,188	21,104
Fiduciary activities	1,215	1,081
Other	3,827	4,680
<b>Fee and commission income</b>	<b>1,053,648</b>	<b>737,822</b>
Payment cards	(218,309)	(155,158)
Fee expenses on cooperation agreements	(18,724)	(6,257)
Purchase and collection of cash	(17,245)	(9,758)
Servicing loans	(10,649)	(8,730)
Settlement transactions	(9,195)	(2,411)
Documentary operations	(2,891)	(1,008)
Fiduciary activities	(943)	(474)
Other	(637)	(3,257)
<b>Fee and commission expense</b>	<b>(278,593)</b>	<b>(187,053)</b>
<b>Net fee and commission income</b>	<b>775,055</b>	<b>550,769</b>

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**26. Other income**

	<b>2013</b>	<b>2012</b> (restated)
Penalties received	23,316	9,378
Other rental income	11,042	8,294
Rental income from investment properties (Note 11)	8,414	5,825
Income from disposal of property and equipment	4,040	-
Gains from sale of other assets	1,984	-
Gain from sale of precious metals	1,354	2,548
Other income	12,911	11,219
<b>Total other income</b>	<b>63,061</b>	<b>37,264</b>

**27. Operating expenses**

	<b>2013</b>	<b>2012</b> (restated)
Salary, employee benefits and compulsory contributions to State funds	735,067	674,284
Depreciation and amortisation (Note 11)	131,392	122,743
Advertising, entertainment expenses	96,161	99,352
Contributions to Individuals Deposits Guarantee Fund	82,793	50,550
Maintenance of premises and equipment	82,311	71,545
Lease of premises	64,486	63,364
Communication	41,539	29,646
Audit, legal, consulting services	19,706	44,367
State duties and taxes, other than on income	17,154	16,247
Security services	10,066	10,940
Staff training	8,757	3,252
Provision/ (reversal of provision) for impairment of other assets (Note 12)	5,795,	2,418
Charitable contributions	764	832
Losses from loans sale	-	8,664
Other	92,664	68,129
<b>Total operating expenses</b>	<b>1,388,655</b>	<b>1,266,333</b>

Included in salary, employee benefits and compulsory contributions to State funds is the unified social tax in the amount of UAH 153,336 thousand (2012: UAH 134,409 thousand). In accordance with the Ukrainian legislation, the unified social tax is implemented, with further allocation of contributions between the respective state social funds. Pension contributions are made to the State Pension Fund which is a defined contribution plan. The contribution to the State Pension Fund comprises 90.2174% of the unified social tax, amounting to UAH 138,336 thousand in 2013 (2012: UAH 121,260 thousand).

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**28. Income taxes**

Income tax expense was comprised of the following:

	<b>2013</b>	<b>2012</b> (restated)
Current tax charge	44,440	71,892
Deferred tax expense	89,176	77,958
<b>Income tax expense for the year</b>	<b>133,616</b>	<b>149,850</b>

The income of the Group for 2013 is taxable at the rate of 19% (2012: 21%). In accordance with the Ukrainian Tax Code, corporate income tax rate will decrease: 18% in 2014, 17% in 2015, 16% effective from 1 January 2016. The reconciliation between the expected and the actual income tax expense is provided below:

	<b>2013</b>	<b>2012</b> (restated)
<b>Profit before income tax expense</b>	<b>688,369</b>	<b>427,072</b>
Theoretical tax charge at the applicable statutory rate	130,790	89,685
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	532	7,865
- Tax-free income	-	-
- Non-deductible expenses	6,867	15,770
- Expenses assessable for tax purposes only	-	(3,149)
- Correction of the current income tax in the previous periods	(14,531)	6,776
- Exchange rate differences on recognition of current and deferred income tax	-	(8)
- Other non-temporary differences	1,256	15,637
- Change in income tax amount for income tax rate applicable in future	8,702	17,274
<b>Income tax expense for the year</b>	<b>133,616</b>	<b>149,850</b>

The differences between the national and IFRS taxation result in specific temporary differences arising between the carrying values of some assets and liabilities for the purposes of financial reporting and their tax bases. The tax effect of changes in such temporary differences shall be accounted for at the income tax rates expected to be applied in the period of realization of such differences.

Deferred tax assets and liabilities as at 31 December 2013 and 31 December 2012 and their movements for the respective years are as follows:

	<b>31 Decem- ber 2012</b>	<b>Credited/ (charged) to other comprehensive income</b>	<b>Credited/ (charged) to statement of income</b>	<b>31 Decem- ber 2013</b>
<b>Tax effect of deductible and taxable temporary differences</b>				
Allowances for loan impairment and credit related commitments	(202,247)	-	(90,888)	<b>(293,135)</b>
Investment securities available for sale	12,571	1,443	14,178	<b>28,192</b>
Property and equipment and investment property	(22,882)	-	(6,250)	<b>(29,132)</b>
Accrued interest and commission income	139,331	-	(7,972)	<b>131,359</b>
Accrued interest and commission expense	(6,442)	-	2,862	<b>(3,580)</b>
Other	17,613	-	3,904	<b>21,517</b>
<b>Estimated net deferred tax liability</b>	<b>(62,056)</b>	<b>1,443</b>	<b>(84,166)</b>	<b>(144,779)</b>
Tax losses carry forward	16,103	-	(5,010)	<b>11,093</b>
<b>Net deferred tax (liability) / asset</b>	<b>(45,953)</b>	<b>1,443</b>	<b>(89,176)</b>	<b>(133,686)</b>

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**28. Income taxes (Continued)**

	31 Decem- ber 2011	Credited/ (charged) to other comprehensive income	Credited/ (charged) to statement of income	31 Decem- ber 2012
<b>Tax effect of deductible and taxable temporary differences</b>				
Allowances for loan impairment and credit related commitments	(215,522)	-	13,275	<b>(202,247)</b>
Investment securities available for sale	88,929	12,565	(88,923)	<b>12,571</b>
Property and equipment and investment property	(25,915)	(1,010)	4,043	<b>(22,882)</b>
Accrued interest and commission income	143,144	-	(3,813)	<b>139,331</b>
Accrued interest and commission expense	(11,581)	-	5,139	<b>(6,442)</b>
Subordinated debt	(1,277)	-	1,277	<b>-</b>
Other	15,647	-	1,966	<b>17,613</b>
<b>Estimated net deferred tax liability</b>	<b>(6,575)</b>	<b>11,555</b>	<b>(67,036)</b>	<b>(62,056)</b>
Tax loss carry forward	27,025	-	(10,922)	<b>16,103</b>
<b>Net deferred tax asset / (liability)</b>	<b>20,450</b>	<b>11,555</b>	<b>(77,958)</b>	<b>(45,953)</b>

**29. Risk management**

**Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

As PJSC "BRC" was acquired by the Group in late 2013, the Group currently develops risk consolidated management policies. Risk management policies disclosed in this note are those used by the Bank.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

**Risk Management Process**

The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairman of the Management Board on Risks and reporting to the Bank Management Board, Credit Council of the Bank and the Assets and Liabilities Management Committee of the Bank and the Committee on Operational Risk Management of the Bank.

**Supervisory Board of the Bank**

The Supervisory Board of the Bank has the highest degree of authority with respect to the Bank's and Bank' risk management, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of USD 150,000 thousand (UAH 1,198,950 thousand in the equivalent as at 31 December 2013).

**Management Board**

The Management Board of the Bank is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board of the Bank delegates its powers with respect to the overall asset and liability management to the Assets and Liabilities Management Committee of the Bank, authorities on operational risk management – to the Committee On Operational Risk Management of the Bank and approves the composition of these Committees. In addition, the Management Board of the Bank is responsible for development and preliminary approval of the Bank's credit policy, before the final approval by the Supervisory Board of the Bank.

## **29. Risk management (Continued)**

### *Credit Council of the Bank*

The Credit Council of the Bank approves loans issued with the maximum credit exposure of USD 150,000 thousand (UAH 1,198,950 thousand in the equivalent as at 31 December 2013) and sets limits on interbank deals. A representative of the shareholders is a member of the Credit Council of the Bank. The decisions taken by the Credit Council of the Bank in terms of the projects which maximum credit exposures exceed USD 20,000 thousand (UAH 159,860 thousand in the equivalent as at 31 December 2013) shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board of the Bank. The decisions taken by the Credit Council in terms of the projects which maximum credit exposures are below USD 20,000 thousand (UAH 159,860 thousand in the equivalent as at 31 December 2013) shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board or of an external expert (a representative of the shareholder). The Council meets twice a week.

### *Credit Committee of the Bank*

The Credit Committee is responsible for the decision on restructuring and issue of loans with a maximum credit exposure of USD 3,000 thousand (UAH 23,979 thousand in the equivalent as at 31 December 2013) irrespectively of collateral. Also, the Credit Committee of the Bank approves issuance of loans which bear no credit risk covered by cash collateral with a maximum credit exposure of USD 10,000 thousand (UAH 79,930 thousand in the equivalent as at 31 December 2013). The Committee meets several times per week when the need arises.

### *Assets and Liabilities Management Committee of the Bank*

The Assets and Liabilities Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring the interest rate, currency and liquidity risks of the Bank.

### *Operational Risk Management Committee of the Bank*

Operational Risk Management Committee of the Bank is responsible for operational risk management with the aim to decrease operational losses, banking processes, systems and technologies improvement, approval and implementation of measures aimed at assurance of going concern of the Bank.

For the purpose of operative management and reactions on noted operational risks and managing factors of operational risks, the Bank established five subcommittees based on the Operational Risk Management Committee.

#### *Subcommittee "Personnel"*

Subcommittee "Personnel" analyses matters on intentional and unintentional actions of personnel, errors made by personnel, qualification and personnel sufficiency assessment etc.

#### *Subcommittee "Processes"*

Subcommittee "Processes" analyses matters of processes organization, quality of communications, existing processes effectiveness and necessity of optimization.

#### *Subcommittee "External factors"*

Subcommittee "External factors" analyses matters of intentional actions by the third parties, liquidation of repercussions of force majeure and intentional the Banks's reputation spoil.

#### *Subcommittee "Systems"*

Subcommittee "Systems" analyses IT systems quality matters, unified understanding of IT risks and development of balanced decisions as to IT risks taking into consideration of specifics and interests of business units of the Bank.

#### *Subcommittee "Informational security"*

Subcommittee "Informational security" considers matters of development of IT security management system, development of IT risks management culture, IT incidents management.

### *Risk Management Division of the Bank*

The Risk Management Division is responsible for the development of the credit risk management methodologies, procedures and reporting allowing the Bank to perform quantitative assessment of credit, interest, currency, operational and liquidity risks. This business unit is responsible for implementation of procedures related to risks management. Risk Management Division of the Bank performs current control of mentioned above risks on a permanent basis and controls execution of decisions made by Credit bodies of the Bank, Assets and Liabilities Management Committee of the Bank, Operational Risk Management Committee.

## **29. Risk management (Continued)**

### *Risk measurement and reporting systems*

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert's models. The models make use of probabilities derived from historical experience, adjusted to reflect current economic environment. The Bank also runs worst case scenarios that would arise in the case that extreme events which are unlikely to occur do, in fact, occur.

Risk monitoring and control are primarily performed based on the limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Information compiled from all the businesses is examined and processed in order to analyse, control and early identify the risks. This information is presented and explained to the Management Board of the Bank, Assets and Liabilities Management Committee of the bank, Operational Risk Management Committee of the Bank, Credit Council of the Bank and the head of each respective business division. The report includes the information on the aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity and interest rate risks and risk profile changes, information on operational risk. On a monthly basis, detailed reporting of liquidity, currency, interest and operational rate risks, industry, customer and geographic risks is prepared. The senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

### *Risk mitigation*

As part of its overall financial risk management process, for the purpose of interest, currency, credit and liquidity risks management the Bank uses a system of limits and restrictions that ensures that actual risk measures are at level that do not exceed the Bank's tolerance to those risks.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

To mitigate market risks the Bank may use derivatives to a limited extent.

## **Credit risk**

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a revolving basis and subject to a regular review. Limits on the level of credit risk by borrower are approved regularly by the Credit Council of the Bank and Credit Committee of the Bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

### *Derivative financial instruments*

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

### *Credit-related commitments risks*

The Bank makes available guarantees and letters of credit to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives before the effect of mitigation through the use of master netting or collateral agreements, is shown in their carrying values as accurately as possible.

If recorded at fair value, their carrying values represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

## **29. Risk management (Continued)**

### *Credit quality of financial assets*

The credit quality of financial assets is managed by using both external and the Bank's internal credit ratings. The credit quality by class of asset for loan-related statement of financial position lines, based on the external ratings and the Bank's credit rating system is presented in Note 8, Note 9 and Note 10.

### *Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

### *Individually assessed allowances*

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. The items considered when determining the allowance amounts include the feasibility of the counterparty's business plan, its ability to improve the performance once a financial difficulty has arisen, projected receipts and the expected dividend payment in case of bankruptcy, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless any unforeseen circumstances require more careful attention.

### *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is no yet objective evidence of impairment. The allowances are evaluated at each reporting date, with each portfolio receiving a separate review. The collective assessment takes account of the impairment that is likely to be present in the portfolio even though there is no yet any objective evidence of impairment in an individual assessment. The impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time the loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by the credit management to ensure its alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed based on the methods applied for loans; when the loss is considered probable, provisions are recorded against other credit related commitments.

## **Liquidity risk and funding management**

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

During the crisis period, the Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining the liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation. The liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a 1-year term. In addition, the stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of the Ukrainian banks' results under the conditions of the financial crisis.



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**29. Risk management (Continued)**

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

<b>Ratio</b>	<b>2013, %</b>	<b>2012, %</b>
<b>N4</b> “Instant Liquidity Ratio” (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	38.49	44.18
<b>N5</b> “Current Liquidity Ratio” (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	66.80	70.49
<b>N6</b> “Short-term Liquidity Ratio” (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 60%)	82.06	84.64

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Bank’s financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

<b>At 31 December 2013</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
Due to the National Bank of Ukraine	7,802	313,147	16,195	32,390	891,674	<b>1,261,208</b>
Due to other banks	1,804,991	372,200	-	-	-	<b>2,177,191</b>
Derivative financial instruments:	46,228	1,832	504	-	-	<b>48,564</b>
Customer accounts	10,992,382	2,157,524	4,039,971	3,868,686	491,282	<b>21,549,845</b>
Eurobonds issued	-	52,415	56,732	2,133,450	-	<b>2,242,597</b>
Bonds issued	-	-	113	-	-	<b>113</b>
Other borrowed funds	5,552	10,258	15,270	41,636	19,809	<b>92,525</b>
Other financial liabilities	126,303	8,288	5,963	6,653	6,351	<b>153,558</b>
Subordinated debt	9,676	8,933	14,125	285,956	297,086	<b>615,776</b>
<b>Total undiscounted financial liabilities</b>	<b>12,992,934</b>	<b>2,924,597</b>	<b>4,148,873</b>	<b>6,368,771</b>	<b>1,706,202</b>	<b>28,141,377</b>

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**29. Risk management (Continued)**

<b>At 31 December 2012</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
Due to the National Bank of Ukraine	8,045	16,089	24,134	48,267	1,305,756	<b>1,402,291</b>
Due to other banks	1,253,566	1,479	5,413	4,438	74,195	<b>1,339,091</b>
Derivative financial instruments:	1,856	-	-	-	-	<b>1,856</b>
Customer accounts	8,957,937	2,405,608	2,381,879	3,938,129	682,559	<b>18,366,112</b>
Eurobonds issued	18,500	36,999	55,499	110,998	2,240,132	<b>2,462,128</b>
Bonds issued	-	-	7	7	105	<b>119</b>
Other borrowed funds	407	271	5,071	5,516	84,826	<b>96,091</b>
Other financial liabilities	28,844	-	-	-	-	<b>28,844</b>
Subordinated debt	5,022	8,874	13,438	26,750	618,473	<b>672,557</b>
<b>Total undiscounted financial liabilities</b>	<b>10,274,177</b>	<b>2,469,320</b>	<b>2,485,441</b>	<b>4,134,105</b>	<b>5,006,046</b>	<b>24,369,089</b>

The table below shows the contractual expiry of the Group's financial commitments and contingencies.

	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>2013</b>	50,101	845,408	386,438	1,779,563	268,574	<b>3,330,084</b>
<b>2012</b>	41,973	704,944	285,192	376,524	302,186	<b>1,710,819</b>

Financial commitments and contingences include guarantees, letters of credit and credit limits on overdrafts, with the expected draw-down at any time starting from the reporting date till the date of contractual expiry. The Group expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

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**29. Risk management (Continued)**

The table below shows the analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2013:

	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>Assets</b>						
Cash on hand and in transit	1,336,850	-	-	-	-	<b>1,336,850</b>
Balance with the National Bank of Ukraine	1,610,912	-	-	-	-	<b>1,610,912</b>
Due from other banks	1,548,372	370,473	184,464	4,514	14,609	<b>2,122,432</b>
Loans to customers	2,105,093	3,013,958	2,442,510	7,499,402	6,802,260	<b>21,863,223</b>
Investment securities in the trading portfolio	317,915	-	28,472	-	-	<b>346,387</b>
Investment securities available for sale	768,008	227,318	-	619,412	1,230,822	<b>2,845,560</b>
Other financial assets	242,593	11,249	-	-	-	<b>253,842</b>
<b>Total financial assets</b>	<b>7,929,743</b>	<b>3,622,998</b>	<b>2,655,446</b>	<b>8,123,328</b>	<b>8,047,691</b>	<b>30,379,206</b>
<b>Liabilities</b>						
Due to the National Bank of Ukraine	21,972	342,339	63,510	127,019	508,076	<b>1,062,916</b>
Due to other banks	982,354	370,597	-	-	-	<b>1,352,951</b>
Customer accounts	10,980,079	2,067,135	3,886,481	3,681,627	452,233	<b>21,067,555</b>
Eurobonds issued	-	-	-	1,989,283	-	<b>1,989,283</b>
Bonds issued	-	-	109	-	-	<b>109</b>
Other borrowed funds	5,701	10,246	15,683	40,961	18,348	<b>90,939</b>
Subordinated debt	5,206	-	701	263,688	259,567	<b>529,162</b>
Other financial liabilities	172,531	10,120	6,467	6,653	6,351	<b>202,122</b>
<b>Total financial liabilities</b>	<b>12,167,843</b>	<b>2,800,437</b>	<b>3,972,951</b>	<b>6,109,231</b>	<b>1,244,575</b>	<b>26,295,037</b>
<b>Liquidity gap arising from financial instruments</b>	<b>(4,238,100)</b>	<b>822,561</b>	<b>(1,317,505)</b>	<b>2,014,097</b>	<b>6,803,116</b>	<b>4,084,169</b>

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

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**29. Risk management (Continued)**

The table below shows the analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2012:

	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>Assets</b>						
Cash on hand and in transit	718,992	-	-	-	-	<b>718,992</b>
Balance with the National Bank of Ukraine	1,544,400	-	-	-	-	<b>1,544,400</b>
Due from other banks	2,025,888	184,188	72,357	649	22,347	<b>2,305,429</b>
Loans to customers	2,242,881	3,386,457	1,472,164	4,078,899	7,099,118	<b>18,279,519</b>
Investment securities in the trading portfolio	373,793	-	-	-	-	<b>373,793</b>
Investment securities available for sale	1,519	820,923	433,116	402,947	1,365,175	<b>3,023,680</b>
Other financial assets	105,863	-	-	-	-	<b>105,863</b>
<b>Total financial assets</b>	<b>7,013,336</b>	<b>4,391,568</b>	<b>1,977,637</b>	<b>4,482,495</b>	<b>8,486,640</b>	<b>26,351,676</b>
<b>Liabilities</b>						
Due to the National Bank of Ukraine	-	-	-	-	1,016,153	<b>1,016,153</b>
Due to other banks	1,078,250	9,999	3,194	-	68,281	<b>1,159,724</b>
Customer accounts	8,775,810	1,196,940	1,206,864	5,341,003	1,160,226	<b>17,680,843</b>
Eurobonds issued	-	-	-	-	1,972,640	<b>1,972,640</b>
Bonds issued	-	-	3	-	105	<b>108</b>
Other borrowed funds	348	165	4,728	4,643	84,753	<b>94,637</b>
Subordinated debt	4,223	-	-	-	523,401	<b>527,624</b>
Other financial liabilities	30,700	-	-	-	-	<b>30,700</b>
<b>Total financial liabilities</b>	<b>9,889,331</b>	<b>1,207,104</b>	<b>1,214,789</b>	<b>5,345,646</b>	<b>4,825,559</b>	<b>22,482,429</b>
<b>Liquidity gap arising from financial instruments</b>	<b>(2,875,995)</b>	<b>3,184,464</b>	<b>762,848</b>	<b>(863,151)</b>	<b>3,661,081</b>	<b>3,869,247</b>

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation.

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

Included in customer accounts are term deposits of individuals. Pursuant to the Ukrainian legislation, the Bank is obliged to repay such deposits upon the depositor's demand (Note 15).

*Market risk – Non-trading*

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and other prices. The Bank manages its exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using the sensitivity analysis.

*Interest rate risk*

Interest rate risk is a potential menace of losses incurrence, decrease in income or decrease in cost of capital of the Bank as a result of unfavorable changes in interest rates in the market. The risk appears primarily as a result of differences in maturity terms of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, interest rate risk is the result of unbalanced structure of consolidated statement of financial position by assets and liabilities by residual term to re-pricing date that are sensitive to changes in interest rates.

## **29. Risk management (Continued)**

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating interest rate of the non-trading financial assets and financial liabilities held at 31 December, taking into account the re-pricing periods according to the contractual terms on the respective assets and liabilities.

To assess interest risk the Bank uses gap analysis of interest-bearing assets and liabilities, performs analysis of sensitivity of interest-bearing assets and liabilities to changes in interest rates.

Interest risk control is performed in accordance to the report of spread and margin changes.

The Group assess interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 100 bps in major currencies (UAH, USD, EUR). As at 31 December 2013 the Group is exposed to interest rate risk, whose realization may impact net interest income within 1-year horizon – a possible decrease by UAH 66,206 thousand (2012 – decrease by UAH 38,414 thousand).

The Group assesses the above level of the interest rate risk as acceptable and controllable, which is not to affect significantly the Bank's yield and stable financial position. Interest rates are set by the Tariff Commercial Committee of the Bank taking into consideration transfer interest rates and cost of risks set by the Bank's Assets and Liabilities Management Committee. In accordance with internal policies of the Bank, the delegation of authority regarding the change of interest rates is established. Control over transactions effectiveness with interest-bearing instruments is performed by the Tariff Commercial Committee of the Bank on a monthly basis.

### **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II market risk framework, December 2010. VaR allows to assess maximum possible extent of losses with set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess currency risk in normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding historical data on market currency rates; calculation period during which the Group would be probably able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

Historical VaR calculation for normal conditions of financial market development is made in six stages:

- 250-days change in currency rates calculation based on 251 days historical data;
- Hypothetical daily gains and losses calculation using daily currency rates;
- Aggregation of all the hypothetical gains and losses for each separate day by all open positions in foreign currencies and banking metals;
- VaR – is 99% percentile selected for 250-days hypothetical aggregated gains and losses;
- Determination of 10-days VaR by means of one-day VaR scaling using the square root from time rule;
- Determination of the higher of: 10-days VaR for a previous day and average one-day VaR value for the last 60 days multiplied by the sum of figure "3" and additional "1" in accordance with Basel recommendations.

Historical VaR calculation for stressed conditions of financial market development (stressed VaR) is performed similarly to historical VaR calculation for normal conditions of financial market development. Herewith, output data for 250-days changes in currency rates calculation are 251 values of non-weighted historical data on market currency rates observable during 2008-2009.

The sum of historical VaR for normal stressed conditions of financial market development is the assessment of currency risk of the Bank.

## 29. Risk management (Continued)

Disregarding the fact that VaR allows to accept a currency risk assessment, it is necessary to consider following shortages of the method, such as:

- The use of past currency and banking metals exchange rates does not allow to fully estimate possible currency and banking metals rates fluctuations in the future
- The use of 10-days calculation period stipulates that all the open positions in foreign currencies and banking metals may be closed during 10 trading days. This estimation may inexactly reflect currency risk value in the periods of diminishing market liquidity whereby the period of positions closure by the Bank may increase;
- The use of 99% one-sided confidence level does not allow to estimate volume of losses expected with 1% probability;
- VaR calculation is performed based on open positions of the Group in foreign currencies and banking metals as at the end of the day and may not reflect the risk that the Group accepts during the day.

The results of currency risk calculation using VaR method as at 31 December 2013 are as follows:

<b>Index</b>	<b>2013</b>	<b>2012</b>
Currency risk without diversification consideration:		
USD	154,985	64,277
EUR	3,266	53
RUR	6,129	565
Other currencies	1,861	6,650
<b>Total currency risk without diversification</b>	<b>166,241</b>	<b>71,545</b>
Diversification effect	(21,973)	(13,426)
<b>Currency risk with diversification consideration</b>	<b>144,268</b>	<b>58,119</b>

Currency risk assessment model based on VaR methodology was approved in 2013. The model allows to consider probabilities of characteristics of currency risk realization based on historical currency exchange rates behavior and to assess more adequately value of income and equity exposed to currency risk. To align comparatives with 2013 disclosures, currency risk calculation results using VaR method as at 31 December 2012 are presented based on the methodology approved in 2013.

Data presented above is based on internal managerial reporting of the Group based on executive IFRS accounting data.

Since VaR model is an integral part of the Group strategy in currency risk management, currency risk value calculated based on VaR model is monitored daily.

Assets and Liabilities Committee of the Bank examines the results of currency risk assessment on monthly basis.

### **Operational risk**

The Bank calculates value of accepted operational risk – “risk appetite” – on an annual basis.

Risk appetite value is approved by Operational Risk Management Division. Risk appetites values set in the Bank are as follows:

<b>Index</b>	<b>2013</b>	<b>2012</b>
Operational risk appetite	6,994	7,993

Calculation of actual losses caused by operational risks and monitoring of the Group's compliance with the set “risk appetite” is performed on a monthly basis.

Based on 2013 and 2012 results, the “risk appetite” value set was not exceeded and actual losses were in the “green” zone (low level of risk) during the entire year.

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**30. Fair value measurements**

*Fair value of financial assets and liabilities not carried at fair value*

Set out below is the comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried at amortised cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2013			2012		
	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)
<b>Financial assets</b>						
Cash on hand	1,336,850	1,336,850	-	718,992	718,992	-
Balance with the National Bank of Ukraine	1,610,912	1,610,912	-	1,544,400	1,544,400	-
Due from other banks						
- Current accounts and overnight deposits	1,347,157	1,347,157	-	1,967,345	1,967,345	-
- Term deposits with other banks	775,275	775,275	-	338,084	338,084	-
Loans to customers						
- Corporate loans				13,718,97		
	16,322,932	15,648,469	(674,463)	6	12,379,080	(1,339,896)
- Mortgage loans	1,340,405	1,212,822	(127,583)	1,799,140	1,592,714	(206,426)
- Car loans	372,137	378,008	5,871	468,098	438,005	(30,093)
- Consumer loans	3,169,918	3,169,918	-	2,020,543	2,020,543	-
- Other loans (overdrafts)	657,831	657,831	-	272,762	272,762	-
<b>Financial liabilities</b>						
Due to the National Bank of Ukraine	1,062,916	1,062,916	-	1,016,153	1,016,153	-
Due to other banks						
- Current accounts of other banks	411,637	411,637	-	787,844	787,844	-
- Term deposits of other banks	884,004	884,004	-	371,880	371,880	-
- Repo agreements with other banks	57,310	57,310	-	-	-	-
Customer accounts						
- legal entities	9,704,305	9,641,648	62,657	7,392,430	7,376,876	15,554
- individuals	11,363,250	11,019,744	343,506	10,288,41		
				3	10,012,001	276,412
Eurobonds issued	1,989,283	1,972,729	16,554	1,972,640	2,041,386	(68,746)
Bonds issued	109	112	(3)	108	105	3
Other borrowed funds	90,939	90,939	-	94,637	94,637	-
Subordinated debt	529,162	537,298	(8,136)	527,624	527,772	(148)
<b>Total unrecognized change in unrealized fair value</b>			<b>(381,597)</b>			<b>(1,353,340)</b>

### **30. Fair value measurements (Continued)**

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For the financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

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

*Financial instruments recorded at fair value*

All the assets and liabilities whose fair value is measured or disclosed in the consolidated financial statements are classified by fair value sources hierarchy level presented below on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



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**30. Fair value measurements (Continued)**

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

31 December 2013	Date of valuation	Fair value measurement using			Total
		Level 1	Level 2	Level 3	
<b>Assets measured at fair value</b>					
State bonds	31 December 2013	-	2,697,970	-	<b>2,697,970</b>
Corporate bonds	31 December 2013	-	86,898	-	<b>86,898</b>
Forward currency contracts	31 December 2013	-	33,852	-	<b>33,852</b>
Currency swap contracts	31 December 2013	-	52,222	-	<b>52,222</b>
NBU deposit certificates	31 December 2013	-	-	400,022	<b>400,022</b>
Property and equipment – premises	1 December 2011	-	-	1,051,141	<b>1,051,141</b>
Works of art	31 December 2012	-	-	9,108	<b>9,108</b>
Investment property	1 December 2011	-	-	82,939	<b>82,939</b>
<b>Assets for which fair values are disclosed</b>					
Cash on hand and in transit	31 December 2013	-	-	1,336,850	<b>1,336,850</b>
Balance with the National Bank of Ukraine	31 December 2013	-	-	1,610,912	<b>1,610,912</b>
Due from other banks	31 December 2013	-	-	2,122,432	<b>2,122,432</b>
Loans to customers	31 December 2013	-	-	21,863,223	<b>21,863,223</b>
Shares	31 December 2013	-	-	7,057	<b>7,057</b>
<b>Liabilities measured at fair value</b>					
Forward currency contracts	31 December 2013	-	(1,123)	-	<b>(1,123)</b>
Currency swap contracts	31 December 2013	-	(46,397)	-	<b>(46,397)</b>
Commodity swap contracts	31 December 2013	-	(659)	-	<b>(659)</b>
Forward contracts with securities	31 December 2013	-	(385)	-	<b>(385)</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to the National Bank of Ukraine	31 December 2013	-	-	1,062,916	<b>1,062,916</b>
Due to other banks	31 December 2013	-	-	1,352,951	<b>1,352,951</b>
Customer accounts	31 December 2013	-	-	21,067,555	<b>21,067,555</b>
Eurobonds issued	31 December 2013	-	-	1,989,283	<b>1,989,283</b>
Bonds issued	31 December 2013	-	-	109	<b>109</b>
Other borrowed funds	31 December 2013	-	-	90,939	<b>90,939</b>
Subordinated debt	31 December 2013	-	-	529,162	<b>529,162</b>

Information about changes of value of premises, work of art and investment property during 2013 disclosed in Note 11.

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**30. Fair value measurements (Continued)**

31 December 2012	Date of valuation	Fair value measurement using			Total
		Level 1	Level 2	Level 3	
<b>Assets measured at fair value</b>					
State bonds	31 December 2012	3,249,091	-	-	<b>3,249,091</b>
Corporate bonds	31 December 2012	-	141,325	-	<b>141,325</b>
Forward currency contracts	31 December 2012	-	8,789	-	<b>8,789</b>
Property and equipment – premises	1 December 2011	-	-	1,072,667	<b>1,072,667</b>
Works of art	31 December 2012	-	-	9,108	<b>9,108</b>
Investment property	1 December 2011	-	-	81,648	<b>81,648</b>
<b>Assets for which fair values are disclosed</b>					
Cash on hand and in transit	31 December 2012	-	-	718,992	<b>718,992</b>
Balance with the National Bank of Ukraine	31 December 2012	-	-	1,544,400	<b>1,544,400</b>
Due from other banks	31 December 2012	-	-	2,305,429	<b>2,305,429</b>
Loans to customers	31 December 2012	-	-	18,279,519	<b>18,279,519</b>
Shares	31 December 2012	-	-	7,057	<b>7,057</b>
<b>Liabilities measured at fair value</b>					
Forward currency contracts	31 December 2012	-	(1,714)	-	<b>(1,714)</b>
Currency swap contracts	31 December 2012	-	(142)	-	<b>(142)</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to the National Bank of Ukraine	31 December 2012	-	-	1,016,153	<b>1,016,153</b>
Due to other banks	31 December 2012	-	-	1,159,724	<b>1,159,724</b>
Customer accounts	31 December 2012	-	-	17,680,843	<b>17,680,843</b>
Eurobonds issued	31 December 2012	-	-	1,972,640	<b>1,972,640</b>
Bonds issued	31 December 2012	-	-	108	<b>108</b>
Other borrowed funds	31 December 2012	-	-	94,637	<b>94,637</b>
Subordinated debt	31 December 2012	-	-	527,624	<b>527,624</b>

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**30. Fair value measurements (Continued)**

31 December 2011	Date of valuation	Fair value measurement using			Total
		Level 1	Level 2	Level 3	
<b>Assets measured at fair value</b>					
State bonds	31 December 2011	2,057,426	14,639	-	<b>2,072,095</b>
Corporate bonds	31 December 2011	-	10,637	-	<b>100,637</b>
Forward currency contracts	31 December 2011	-	9,412	-	<b>9,412</b>
Currency swap contracts	31 December 2011	-	25,982	-	<b>25,982</b>
Commodity swap contracts	31 December 2011	-	357	-	<b>357</b>
NBU deposit certificates	31 December 2011	-	1,998,148	-	<b>1,998,148</b>
Property and equipment – premises	1 December 2011	-	-	1,103,387	<b>1,103,387</b>
Works of art	31 December 2012	-	-	2,813	<b>2,813</b>
Investment property	1 December 2011	-	-	70,667	<b>70,667</b>
<b>Assets for which fair values are disclosed</b>					
Cash on hand and in transit	31 December 2011	-	-	645,402	<b>645,402</b>
Balance with the National Bank of Ukraine	31 December 2011	-	-	2,108,735	<b>2,108,735</b>
Due from other banks	31 December 2011	-	-	4,535,919	<b>4,535,919</b>
Loans to customers	31 December 2011	-	-	16,837,602	<b>16,837,602</b>
Shares	31 December 2011	-	-	7,057	<b>7,057</b>
<b>Liabilities measured at fair value</b>					
Forward currency contracts	31 December 2011	-	(3,486)	-	<b>(3,486)</b>
Currency swap contracts	31 December 2011	-	(16,322)	-	<b>(16,322)</b>
<b>Liabilities for which fair values are disclosed</b>					
Due to the National Bank of Ukraine	31 December 2011	-	-	1,016,157	<b>1,016,157</b>
Due to other banks	31 December 2011	-	-	453,301	<b>453,301</b>
Customer accounts	31 December 2011	-	-	20,297,649	<b>20,297,649</b>
Eurobonds issued	31 December 2011	-	-	1,959,340	<b>1,959,340</b>
Bonds issued	31 December 2011	-	-	108	<b>108</b>
Other borrowed funds	31 December 2011	-	-	386,066	<b>386,066</b>
Subordinated debt	31 December 2011	-	-	721,336	<b>721,336</b>

### **30. Fair value measurements (Continued)**

The following is the description of the determination of fair value for the financial instruments which are recorded at fair value using the valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

#### *Derivative financial instruments*

The derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using the present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

#### *Investment securities*

The investment securities valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using discounted cash flows models which sometimes only incorporate the data observable in the market, such as interest rates, and at other times use both observable and non-observable data. The non-observable inputs to the models include the assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

#### *Financial assets and liabilities measured at amortized cost*

Fair value of financial instruments, cash and cash equivalents, balances with National Bank of Ukraine, due from other banks, loans to customers, shares without quotations, due to the National Bank of Ukraine, due to other banks, Eurobonds issued, bonds issued, other borrowed funds and subordinated debt are measured discounting future cash flows using interest rates for the financial instruments with similar conditions, credit risk and maturity at the measurement date.

#### *Premises, works of art and investment property*

The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach.

During 2013 and 2012, the Group did not transfer any financial assets or financial liabilities between fair value hierarchy levels

During 2013 and 2012, the Group recognised neither any changes in the carrying values of the Level 3 financial assets at fair value nor any resulting profit or loss.

### **31. Contingencies and commitments**

#### **Legal**

The Group is involved in various legal proceedings in the ordinary course of business. On the basis of its own estimates and internal professional advice, the management does not believe the result of any such actions will have a material adverse effect on the Group's financial position or results of operations.

#### **Tax and other regulatory compliance**

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

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

#### **Capital expenditure commitments**

As at 31 December 2013, the Group had capital expenditure commitments in respect of purchase of equipment of UAH 2,403 thousand (2012: UAH 3,933 thousand; 2011: UAH 15,762 thousand). The Group's management has already allocated the necessary resources in respect of these commitments. The Group's management believes that the future income and funding will be sufficient to cover these commitments and any similar commitments.

#### **Compliance with covenants**

The Group is subject to certain covenants related primarily to Eurobonds issued, due to the National Bank of Ukraine and other borrowed funds. The non-compliance with such covenants may result in negative consequences for the Group including the growth in the cost of borrowings and declaration of default. In particular, the Group is required to maintain a certain level of equity, capital adequacy ratio, liquid to total assets ratio, maximum exposure to a single party to capital ratio, maximum exposure to a single party which is a related party to the Group to capital ratio, operating expenses to operating results ratio, fixed and intangible assets to capital ratio. The failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. The management believed that the Group was in compliance with all covenants as at 31 December 2013 and 31 December 2012.

#### **Credit related commitments**

The guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the risk of the clients' defaults or inability to perform the contracts with third parties. The Group manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Group. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of the customers authorising third parties to draw drafts on the Group up to a stipulated amount under the specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to the credit risk on commitments to extend credit, the Group is potentially exposed to loss. However, due to its revocable nature the Group is able to refuse to issue the loans, guarantees or letters of credit to the customer due to the deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash needs, as these financial instruments may expire or terminate without being funded.

The letters of credit issued by the Group are as follows:

	<b>2013</b>	<b>2012</b>
Import letters of credit	710,300	-
Confirmed export letters of credit	-	257,394
Cash collateral (Note 15)	(304,014)	(25,809)
Provision for import letters of credit	(579)	(1,094)
<b>Total letters of credit</b>	<b>405,707</b>	<b>230,491</b>

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**31. Contingencies and commitments (Continued)**

The guarantees issued are as follows:

	<b>2013</b>	<b>2012</b>
Guarantees and promissory note endorsements	1,966,260	1,321,729
Cash collateral (Note 15)	(282,661)	(23,264)
Provision for guarantees	(1,909)	(4,066)
<b>Total guarantees</b>	<b>1,681,690</b>	<b>1,294,399</b>

The Group's outstanding irrevocable commitments to extend credit were as follows:

	<b>2013</b>	<b>2012</b>
Commitments to extend credit	653,524	131,696
Cash collateral	(119,280)	(57,382)
<b>Total irrevocable commitments to extend credit</b>	<b>534,244</b>	<b>74,314</b>

The amount of undrawn revocable commitments to extend credit issued by the Group as at 31 December 2013 was UAH 5,241,056 thousand (2012: UAH 1,973,288 thousand). The management considers the commitments to extend credit as revocable due to the fact that the Group can stop further financing of the client or early cancel the credit limit funds based on the agreements providing for a wide range of the trigger events for early cancellation of credit limits, such as worsening of the client's financial condition, decrease in volume of cash inflows to the clients' current accounts, loss of collateral or substantial decrease in its fair value, decisions of the regulatory bodies impacting the Ukrainian money market.

The movements in the provision for the letters of credit and guarantees are as follows:

	<b>2013</b>	<b>2012</b>
<b>Provision for credit related commitments as at 1 January</b>	<b>5,160</b>	<b>1,638</b>
(Reversal of provision) / charge for provision for credit related commitments during the year	(2,742)	3,522
Translation differences	70	-
<b>Provision for letters of credit and guarantees as at 31 December (Note 19)</b>	<b>2,488</b>	<b>5,160</b>

**Operating lease commitments**

Where the Group is the lessee, the future minimum lease payments under cancellable operating leases of premises are as follows:

	<b>2013</b>	<b>2012</b>
Within 1 year	12,470	13,724
From 1 to 5 years	7,521	5,124
Later than 5 years	-	799
<b>Total operating lease commitments</b>	<b>19,991</b>	<b>19,647</b>

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**32. Pledged financial assets**

The table below show financial assets pledged, but still recognized by the Group as at 31 December 2013:

	<b>State bonds in trading portfolio</b>	<b>State bonds available for sale</b>	<b>Loans to customers</b>	<b>Total</b>
Carrying value of assets:				
- Trading securities	28,472	-	-	<b>28,472</b>
- Investment securities available for sale	-	518,442	-	<b>518,442</b>
- Loans to customers	-	-	1,210,290	<b>1,210,290</b>
<b>Total</b>	<b>28,472</b>	<b>518,442</b>	<b>1,210,290</b>	<b>1,757,204</b>
Carrying value of liabilities:				
- Due to other banks	-	-	-	<b>57,310</b>
- Due to the National Bank of Ukraine	-	-	-	<b>1,062,916</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,120,226</b>

Securities disclosed in the table above - assets pledged under repo agreements with other banks and loans received from the National Bank of Ukraine for liquidity maintenance as at 31 December 2013.

Loans to customers – assets, property rights on which were transferred by the Group as a collateral under loans received from the National Bank of Ukraine for liquidity maintenance as at 31 December 2013.

Group consider that it still takes all risks and awards in respect of these assets, including credit, market and operational risks, and country risk, accordingly did not derecognized these assets.

The table below show financial assets pledged, but still recognized by the Group as at 31 December 2012:

	<b>State bonds available for sale</b>	<b>Loans to customers</b>	<b>Total</b>
Carrying value of assets:			
- Investment securities available for sale	85,024	-	85,024
- Loans to customers	-	1,785,609	1,785,609
<b>Total</b>	<b>85,024</b>	<b>1,785,609</b>	<b>1,870,633</b>
Carrying value of liabilities:			
- Due to the National Bank of Ukraine	-	-	<b>1,016,153</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,016,153</b>

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**33. Related party transactions**

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, 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.

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2013 and as at 31 December 2012 and income and expenses for the years then ended are as follows:

<b>As at and for the year ended 31 December 2013</b>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Management</b>	<b>Other related parties</b>
<b>Assets</b>				
Loans to customers (interest rate, % p.a.)	-	705,260(10.58)	192(12.55)	-
Allowance for loan impairment	-	(2,024)	-	-
Other assets	5	1,585	-	-
<b>Liabilities</b>				
Customer accounts (interest rate, % p.a.)	(262,293)	(4,202,421)(12.42)	(19,515)(11.95),	(27,659)(7.4)
Other liabilities	-	(742)	-	-
<b>Credit related commitments</b>				
Revocable commitments to extend credit	-	143,954	-	-
Guarantees and avals	-	31,304	-	-
Letters of credit	-	289,399	-	-
<b>Income / (expense)</b>				
Interest income	-	71,444	80	1
Interest expense	(2,993)	(165,501)	(1,349)	(821)
Fee and commission income	1	554,218	40	193
Fee and commission expense	-	(7,399)	-	-
Other income	-	289	-	-
Allowance for loan impairment	-	1,540	-	-
Operating expenses	-	(6,068)	127	-



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**33. Related party transactions (Continued)**

<b>As at and for the year ended 31 December 2012</b>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Management</b>	<b>Other related parties</b>
<b>Assets</b>				
Loans to customers (interest rate, % p.a.)	-	873,843(11.7)	204(14.0)	-
Allowance for loan impairment	-	(1,247)	-	-
Investment securities available for sale	-	23,851(18.0)	-	-
Other assets	-	2,230	-	-
<b>Liabilities</b>				
Customer accounts (interest rate, % p.a.)	(56)	(3,634,366)(1.4)	(11,023)(10.4)	(60,771)(9.5)
Other liabilities	-	(192)	-	-
<b>Credit related commitments</b>				
Revocable commitments to extend credit	-	33,970	-	-
Irrevocable commitments to extend credit	-	-	176	-
Guarantees	-	38,342	-	-
Letters of credit	-	3,829	-	-
<b>Income / expense</b>				
Interest income	-	107,138	56	-
Interest expense	-	(163,070)	(455)	(463)
Fee and commission income	8	223,382	-	-
Fee and commission expense	-	(9)	-	-
Other income	-	168	440	-
Allowance for loan impairment	-	5,937	-	-
Operating expense	-	(2,214)	-	-

The allowance for loan impairment in respect of loans to related parties has been assessed on a portfolio basis in respect of the majority of loans.

During 2013, the movements on related parties' loan accounts were as follows:

	<b>Parent company</b>	<b>Entities under common control</b>	<b>Management</b>	<b>Other related parties</b>
Loans granted to related parties during the year	-	397,142	-	2
Amounts repaid by related parties during the year	-	(474,125)	(36)	(2)
Other change	-	(91,600)	24	-

During the year, the movements on related parties' loan accounts were as follows:

	<b>Parent company</b>	<b>Entities under common control</b>	<b>Management</b>	<b>Other related parties</b>
Loans granted to related parties during the year	-	1,490,960	1,542	767
Amounts repaid by related parties during the year	-	(1,747,577)	(1,486)	(759)
Other change	-	432,263	(519)	(3,420)

In 2013, the remuneration of the members of the Management Board comprised salaries of UAH 30,334 thousand (2012: UAH 33,818 thousand), compulsory contributions to the State funds of UAH 841 thousand (2012: UAH 767 thousand). In 2013, the remuneration to the members of the Supervisory Board was UAH 40 thousand (2012: UAH 24 thousand).

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#### 34. Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period. Bank does not have converted preferred shares, thus diluted earnings per share is equal to basic earnings per share.

	<b>2013</b>	<b>2012</b>
Profit for the year	554,753	277,222
Weighted average number of ordinary shares outstanding during the period	14,323,880	14,323,880
<b>Earnings per share, basic (in hryvnia per share)</b>	<b>38.73</b>	<b>19.35</b>

#### 35. Capital

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Group. The Group considers the total capital under management to be the total regulatory capital. The amount of the capital that the Group manages is UAH 5,013,641 thousand as at 31 December 2013 (2012: UAH 4,609,016 thousand).

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividend payments to the shareholders, return the capital to the shareholders or issue capital securities. No changes were made in the objectives, policies and processes since the previous years.

##### *NBU capital adequacy ratio*

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on the Ukrainian accounting rules. As at 31 December 2013 and 2012, the Group's capital adequacy ratio on this basis was as follows:

	<b>2013</b>	<b>2012</b>
Main capital	3,067,227	3,103,198
Additional capital	1,946,414	1,505,818
Withdrawals	(300,786)	-
Excess of N9 prudential ratio	(560,698)	-
<b>Total equity</b>	<b>4,152,157</b>	<b>4,609,016</b>
<b>Risk-weighted assets</b>	<b>33,714,574</b>	<b>25,061,390</b>
<b>Capital adequacy ratio</b>	<b>12.32%</b>	<b>18.39%</b>

The regulatory capital consists of the main capital, which comprises paid-in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets and losses of current and prior years. The other component of the regulatory capital is additional capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased for the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest, long-term subordinated debt, retained earnings of prior years. As at 31 December 2013 and 31 December 2012, the Group is compliant with the regulatory requirements to capital.

The Group is also subject to minimum capital requirements established by the covenants stated in the loan agreements, including the capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated in April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated in November 2005), commonly known as Basel I. The Group complied with this loan covenant. As at 31 December 2013 and 31 December 2012, the Group's capital adequacy ratio calculated in accordance with the Basel I requirements is as follows:

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**35. Capital (Continued)**

	<b>2013</b>	<b>2012</b> (restated)
<b>Tier 1 capital</b>		
Share capital	3,427,350	3,427,350
Share premium	56,798	56,798
Merger reserve	34,266	34,266
Retained earnings	1,485,653	1,213,188
<b>Total tier 1 capital</b>	<b>5,004,067</b>	<b>4,731,602</b>
<b>Tier 2 capital</b>		
Asset revaluation reserves	567,461	593,217
Eligible subordinated debt	175,760	280,020
<b>Total tier 2 capital</b>	<b>743,221</b>	<b>873,237</b>
<b>Total equity</b>	<b>5,747,288</b>	<b>5,604,839</b>
<b>Capital adequacy ratio at 31 December</b>		
Risk-weighted assets	27,367,443	23,007,206
Total equity	5,747,288	5,604,839
<b>Capital adequacy ratio (%)</b>	<b>21.00%</b>	<b>24.36%</b>

**36. Subsequent events**

Group attracted funds from the National Bank of Ukraine in amount of UAH 199,998 thousand under repo agreement in February 2014. Interest rate is equal to 6.5%, maturity of the loans is on May 2014.

Signed on behalf of the Management Board on 21 March 2014

S. P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)