

PUBLIC JOINT STOCK COMPANY
“FIRST UKRAINIAN INTERNATIONAL BANK”

Consolidated financial statements

Year ended 31 December 2014

Together with Independent Auditor's Report

Translation from Ukrainian original

PUBLIC JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”
2014 CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditor’s report

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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 2014, 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 qualified audit opinion.

Basis for Qualified Opinion

The Group's accounting policy is to carry its non-residential premises accounted for as property, plant and equipment and investment properties at revalued amounts. IAS 16, Property, Plant and Equipment and IAS 40, Investment Property require revaluations to be made with sufficient regularity to ensure that the carrying amounts do not differ materially from fair values at the reporting date. As disclosed in Note 5, the Group did not revalue its non-residential premises with the carrying amounts of UAH 339,723 thousand included in property, plant and equipment and of UAH 29,255 thousand included in investment properties as at 31 December 2014, while there were a number of factors that indicated that the fair values of non-residential premises materially differed from carrying values. This represents a departure from International Financial Reporting Standards. Carrying values of non-residential premises as at 31 December 2014 enter into determination of the movement in revaluation reserve and Gains less losses on revaluation of investment property. The effects on the consolidated financial statements of this departure have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 2 to the consolidated financial statements, which describes the current political and economic situation in Ukraine. The circumstances referred to in Note 2 could continue to adversely affect the Group's financial position and performance in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Ernst & Young Audit Services LLC

14 April 2015

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Consolidated statement of financial position as at 31 December 2014***(in thousands of Ukrainian hryvnias)*

| | Notes | 2014 | 2013 |
|--|-------|-------------------|-------------------|
| Assets | | | |
| Cash on hand and in transit | 6 | 1,053,915 | 1,336,850 |
| Balance with the National Bank of Ukraine | 7 | 1,513,095 | 1,610,912 |
| Due from other banks | 8 | 2,484,584 | 2,122,432 |
| Loans to customers | 9 | 28,355,608 | 21,863,223 |
| Investment securities in trading portfolio | | - | 346,387 |
| Investment securities available-for-sale | 10 | 1,947,384 | 2,845,560 |
| Current income tax assets | | 37,585 | 14,398 |
| Other assets | 12 | 404,926 | 538,808 |
| Property and equipment | 11 | 1,365,946 | 1,246,996 |
| Investment property | 11 | 96,151 | 82,939 |
| Intangible assets | 11 | 172,085 | 150,216 |
| Total assets | | 37,431,279 | 32,158,721 |
| Liabilities | | | |
| Due to the National Bank of Ukraine | 13 | 1,190,046 | 1,062,916 |
| Due to other banks | 14 | 244,119 | 1,352,951 |
| Customer accounts | 15 | 26,272,519 | 21,067,555 |
| Eurobonds issued | 16 | 3,272,979 | 1,989,283 |
| Bonds issued | | - | 109 |
| Other borrowed funds | 17 | 25,725 | 90,939 |
| Other liabilities | 18 | 295,679 | 360,592 |
| Deferred tax liability | 27 | 105,745 | 133,686 |
| Subordinated debt | 19 | 492,825 | 529,162 |
| Total liabilities | | 31,899,637 | 26,587,193 |
| Equity | | | |
| Share capital | 21 | 3,427,350 | 3,427,350 |
| Share premium | | 56,798 | 56,798 |
| Merger reserve | | 34,266 | 34,266 |
| Revaluation reserve for property and equipment | | 642,188 | 597,471 |
| Revaluation reserve for investment securities available-for-sale | | 17,873 | (30,010) |
| Retained earnings | | 1,353,167 | 1,485,653 |
| Total equity | | 5,531,642 | 5,571,528 |
| Total liabilities and equity | | 37,431,279 | 32,158,721 |

Signed on behalf of the Management Board on 14 April 2015

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

I.O. Kozhevyn (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)



PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Consolidated statement of income for 2014***(in thousands of Ukrainian hryvnias)*

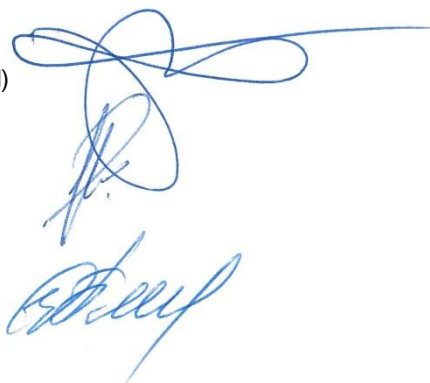
| | Notes | 2014 | 2013 |
|---|-----------|------------------|------------------|
| Interest income | 23 | 4,988,555 | 3,572,874 |
| Interest expense | 23 | (2,643,865) | (1,847,734) |
| Net interest income | 23 | 2,344,690 | 1,725,140 |
| Allowance for loan impairment | 8,9 | (2,862,519) | (556,073) |
| Net interest (loss)/income after allowance for loan impairment | | (517,829) | 1,169,067 |
| Fee and commission income | 24 | 1,114,199 | 1,053,648 |
| Fee and commission expense | 24 | (280,084) | (278,593) |
| Net fee and commission income | 24 | 834,115 | 775,055 |
| Net gains from dealing in foreign currencies | | 507,729 | 25,059 |
| Foreign exchange translation result | | 951,624 | (25) |
| Net gains from investment securities available-for-sale | | 36,999 | 4,620 |
| Net losses from investment securities in trading portfolio | | (160,052) | (13,552) |
| (Charge to) / reversal of provision for credit related commitments | 30 | (8,648) | 2,742 |
| Gains less losses on revaluation of investment property | 11 | 11,610 | 2,533 |
| Revaluation of investment securities through profit / loss | | (231) | - |
| (Losses)/ Gains less losses from derivative financial instruments | | (311,037) | 48,464 |
| Other income | 25 | 132,712 | 63,061 |
| Operating income | | 1,476,992 | 2,077,024 |
| Operating expenses | 26 | (1,650,015) | (1,388,655) |
| (Loss)/ Profit before income tax expense | | (173,023) | 688,369 |
| Income tax benefit/(expense) | 27 | 37,217 | (133,616) |
| Net (loss)/ profit for the year | | (135,806) | 554,753 |
| (Losses)/ Earnings per share (in Ukrainian hryvnias per share) | 33 | (9,48) | 38,73 |

Signed on behalf of the Management Board on 14 April 2015

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

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)



PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Consolidated statement of comprehensive income for 2014***(in thousands of Ukrainian hryvnias)*

| | 2014 | 2013 |
|--|------------------|-----------------|
| Net (loss)/profit for the year | (135,806) | 554,753 |
| Other comprehensive income: | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> | | |
| Unrealised gains/ (losses) on investment securities available-for-sale | 89,368 | (9,816) |
| Realised gains on investment securities available-for-sale reclassified to the statement of income | (36,999) | (4,620) |
| Income tax effect | (4,486) | 1,443 |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | 47,883 | (12,993) |
| <i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i> | | |
| Revaluation of buildings | 79,683 | - |
| Income tax effect | (14,343) | - |
| Effect of change in income tax rate | (6,299) | - |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods | 59,041 | - |
| Other comprehensive income/ (loss) for the year, net of tax | 106,924 | (12,993) |
| Total comprehensive (loss)/ income for the year | (28,882) | 541,760 |

Signed on behalf of the Management Board on 14 April 2015

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

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Consolidated Statement of Cash Flows for 2014**

(in thousands of Ukrainian hryvnias)

| | 2014 | 2013 |
|--|--------------------|------------------|
| Cash flows from operating activities: | | |
| Interest income received | 4,768,114 | 3,549,974 |
| Interest expense paid | (2,676,869) | (1,734,383) |
| Fee and commission income received | 1,077,795 | 1,053,367 |
| Fee and commission expense paid | (263,854) | (270,533) |
| Income received from trading in foreign currencies | 507,729 | 25,059 |
| Gains from investments securities | (123,053) | (4,723) |
| Gains less losses from financial derivatives | (306,256) | 43,298 |
| Other income received | 79,385 | 63,241 |
| Operating expenses paid | (1,481,113) | (1,223,179) |
| Income tax paid | (36,624) | (72,284) |
| Cash flows from operating activities before changes in operating assets and liabilities | 1,545,254 | 1,429,837 |
| <i>Net (increase)/decrease in operating assets:</i> | | |
| Mandatory reserve balance with the National Bank of Ukraine | 542,283 | (571,923) |
| Due from other banks | 199,610 | (444,610) |
| Investment securities in trading portfolio | 346,387 | 50,533 |
| Loans to customers | (721,332) | (4,323,939) |
| Other assets | 183,498 | (116,865) |
| <i>Net increase/(decrease) in operating liabilities:</i> | | |
| Due to the National Bank of Ukraine | 127,931 | 45,962 |
| Due to other banks | (915,247) | 198,863 |
| Customer accounts | (3,772,765) | 3,371,874 |
| Other liabilities | (68,787) | 152,004 |
| Net cash used in operating activities | (2,533,168) | (208,264) |
| Cash flows from investing activities | | |
| Purchase of property and equipment and intangible assets | (188,910) | (151,743) |
| Proceeds from sale of property and equipment and intangible assets | 18,648 | 7,703 |
| Purchase of investment securities available-for-sale | (31,996,756) | (10,459,707) |
| Proceeds from sale of investment securities available-for-sale | 34,137,765 | 11,030,369 |
| Investments in subsidiaries | - | (295,051) |
| Net cash from investing activities | 1,970,747 | 131,571 |
| Cash flows from financing activities | | |
| Redemption of bonds issued | (105) | - |
| Redemption of subordinated debt | (84,348) | - |
| Redemption of other borrowed funds | (819,194) | (6,953) |
| Net cash used in financing activities | (903,647) | (6,953) |
| Effect of exchange rate changes on cash and cash equivalents | 1,984,302 | (22,677) |
| Net increase/(decrease) in cash and cash equivalents | 518,234 | (106,323) |
| Cash and cash equivalents at the beginning of the year | 3,662,116 | 3,768,439 |
| Cash and cash equivalents at the end of the year (Note 6) | 4,180,350 | 3,662,116 |

Signed on behalf of the Management Board on 14 April 2015

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

I.O. Kozhevyn (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The notes set out on pages 6 to 64 form an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Consolidated Statement of Changes in Equity for 2014

(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 |
|--|------------------|---------------|----------------|--|--|-------------------|------------------|
| Balance at 1 January 2013 | 3,427,350 | 56,798 | 34,266 | 610,234 | (17,017) | 1,213,188 | 5,324,819 |
| Net profit for the year | - | - | - | - | - | 554,753 | 554,753 |
| Other comprehensive loss for the year | - | - | - | - | (12,993) | - | (12,993) |
| Total comprehensive income 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) |
| Balance at 31 December 2013 | 3,427,350 | 56,798 | 34,266 | 597,471 | (30,010) | 1,485,653 | 5,571,528 |
| Net loss for the year | - | - | - | - | - | (135,806) | (135,806) |
| Other comprehensive income for the year | - | - | - | 59,041 | 47,883 | - | 106,924 |
| Total comprehensive loss for the year | - | - | - | 59,041 | 47,883 | (135,806) | (28,882) |
| Transfer of property and equipment revaluation | - | - | - | (14,324) | - | 14,324 | - |
| Disposal of additional paid-in capital of a subsidiary | - | - | - | - | - | (11,004) | (11,004) |
| Balance at 31 December 2014 | 3,427,350 | 56,798 | 34,266 | 642,188 | 17,873 | 1,353,167 | 5,531,642 |

Signed on behalf of the Management Board on 14 April 2015

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

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Notes to the 2014 consolidated financial statements

(in thousands of Ukrainian hryvnias)

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 of Ukraine #2740-III "On Individuals Deposits Guarantee Fund". The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (2013: UAH 200 thousand).

As at 31 December 2014, the Bank's shareholders are "SCM FINANCE" (92.2% of share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of share capital) and an individual (0.1% of share capital) (2013: "SCM FINANCE" (92.2% of share capital), SCM FINANCIAL OVERSEAS LIMITED (Cyprus) (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 Bank's legal address is: 4 Andriivska Street, Kyiv, Ukraine. As at 31 December 2014, the Bank had 7 regional centers throughout Ukraine (2013: 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"). The principal activity of PJSC "BRC" is 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).

On 27 October 2014, the General shareholders meeting of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" decided to merge the two banks.

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

2. Operating environment of the Group

The Group conducts its operations in Ukraine. 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, high inflation, and significant imbalances in the public finance and foreign trade.

In 2014, the Ukrainian hryvnia ("UAH") depreciated significantly against major foreign currency and official UAH/US dollar exchange rate established by the National Bank of Ukraine (the "NBU") has increased by 97.28% from UAH 7.993 for US dollar 1 as at 1 January to UAH 15.768556 for USD 1 as at 31 December 2014.

Abrupt depreciation of national currency, rise of inflation, reduction of population income, decrease in revenues and capital expenditures, outflow of capital from Ukrainian economy due to annexation of Autonomous Republic of Crimea and armed anti-terrorist operation in Eastern part of Ukraine, have caused the decrease in main economic indicators, increase in State budget deficit, decrease in gold currency reserves of the National Bank of Ukraine and, as a result, further deterioration of Ukrainian sovereign debt credit rating.

In addition, such factors as increase in unemployment in Ukraine, decrease in liquidity and profitability of corporate sector have negative impact on creditworthiness of clients and, as a consequence on the Group's loan portfolio quality. Events in Ukraine also lead to decrease in value of collateral securing loans and other assets of the Group.

After the annexation of Crimea, the Group has closed all of its 10 branches in this area on 30 May 2014. The warfare in certain parts of Donetsk and Luhansk regions made it impossible for the Group to work in a normal course of business on these territories, significantly complicated loan servicing and had negative impact on the Bank's business as a whole. Additionally, the Group has closed 42 branches, located in uncontrolled by the Government of Ukraine parts of Luhansk and Donetsk regions from 11 August 2014. More detailed information is disclosed in Notes 9, 11, 23, 24.

The government has undertaken to focus its policy on Association with the European Union, to implement a set of reforms aimed at addressing existing imbalances in the economy, public finance and public administration, and improving the investment climate.

The stabilization of the Ukrainian economy in the near future depends on the success of the actions taken by the Government, and on the continuous financial support of Ukraine by international donors and international financial institutions.

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”

Notes to the 2014 consolidated financial statements

(in thousands of Ukrainian hryvnias)

2. Operating environment of the Group (continued)

Known and measurable results of the above mentioned events on the Group's financial position and results of operations were taken into consideration while preparing these consolidated financial statements.

The management monitors current situation and take measures, if necessary, to minimize any negative effects as possible. Increase in under-collateralised loans in 2014 as compared to 2013 is due to denomination of collateral in UAH while carrying value of foreign currency denominated loans have increased as a result of UAH depreciation.

Further negative developments of the political and macroeconomic conditions, and / or terms of international trade may continue to adversely affect the Group's financial position and performance in a manner not currently determinable.

3. Basis of preparation

General

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

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.

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

These amendments 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. This amendment is not relevant to the Group, since none of the entities in the Group qualifies 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 amendments had no impact on the Group's financial position.

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. This IFRIC had no impact on the Group's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

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. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Notes to the 2014 consolidated financial statements

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position or performance.

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, 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 principal (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

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Notes to the 2014 consolidated financial statements

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

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

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

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4. Summary of significant accounting policies (continued)

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).

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 other banks 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.

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4. Summary of significant accounting policies (continued)

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.

Reposessed collateral

Reposessed 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.

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.

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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.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral with the help of extending maturity and agreeing new loan terms. 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. The loans continue to be subject to an individual or collective impairment assessment.

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 less, in case of a liability 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 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 Group's default, would be secondary to the Group's primary debt obligations. Subordinated debt is carried at amortised cost.

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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 recognised 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.

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

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4. Summary of significant accounting policies (continued)

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.

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.

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4. Summary of significant accounting policies (continued)

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.

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.

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4. Summary of significant accounting policies (continued)

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.

Fiduciary activities

Assets and liabilities held by the Group 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 are presented 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 Group's Management Board, 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 2015 and which the Group has not early adopted.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with

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4. Summary of significant accounting policies (continued)

early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or

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after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual improvements

These improvements are effective for annual reporting periods starting from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

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4. Summary of significant accounting policies (continued)

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank [Group], since the Bank [Group] is an existing IFRS preparer.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the

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4. Summary of significant accounting policies (continued)

assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

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 and the expected term of 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 154,279 thousand (2013: UAH 182,760 thousand) on loans individually determined to be impaired.

A 10% increase in the value of collateral for individually impaired loans would result in a decrease of impairment loss of UAH 178,314 thousand (2013: UAH 100,000 thousand).

Impairment loss on corporate loans, which are collectively assessed for impairment, may be influenced by the probability of borrower's default (PD) and the level of loss incurred when a borrower defaults (LGD). A simultaneous 10% increase in PD and 10% decrease in LGD would result in an increase in impairment losses of UAH 23,387 thousand (2013: UAH 12,531 thousand). A simultaneous 10% decrease in PD and increase in LGD would result in a decrease in impairment losses of UAH 21,160 thousand (2013: UAH 11,337 thousand).

Impairment 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 73,939 thousand (2013: UAH 37,479 thousand). A simultaneous 10% decrease in PD and increase in RR would result in a decrease in impairment losses of UAH 74,680 thousand (2013: UAH 37,856 thousand).

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***5. Critical accounting estimates and judgements in applying accounting policies (continued)*****Fair value of own use premises, works of arts and investment property***

As stated in Note 4, the Group's premises, works of arts and investment property are subject to revaluation on a regular basis. Such revaluations are based on the results of work of an independent appraiser. Sales comparison approach is the basis for valuation and it 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 and capitalisation level used in the income approach. In 2014, the Group performed revaluation of own premises by engaging independent appraisers, excluding own premises and investment property with a carrying value of UAH 339,723 thousand and UAH 29,255 thousand, respectively, located in antiterrorist operation area (hereinafter referred to as "the area of ATO"). The Bank's management considers that as at 31 December 2014 the Bank was not able to conduct a fair market valuation of real estate in the area of ATO and therefore the carrying value of these items remained unchanged. The independent appraisers used sales comparison approach. If the price per square meter is 5% higher or lower, the fair value of own premises would be UAH 56,827 thousand higher or lower, respectively, and the fair value of investment property would be UAH 4,808 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 at 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 32.

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 29.

6. Cash and cash equivalents

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

| | 2014 | 2013 |
|---|------------------|------------------|
| Cash on hand and in transit | 1,053,915 | 1,336,850 |
| Current accounts and overnight deposits with other banks (Note 8) | 1,903,500 | 1,347,157 |
| Current accounts and overnight deposits with other banks – interest income accrued (Note 8) | (820) | (308) |
| Current account with the National Bank of Ukraine (Note 7) | 1,513,095 | 1,100,125 |
| Current account with the National Bank of Ukraine – mandatory reserve balance (Note 7) | (489,340) | (521,708) |
| Deposit certificates (Note 10) | 200,041 | 400,022 |
| Deposit certificates - interest income accrued (Note 10) | (41) | (22) |
| Total cash and cash equivalents | 4,180,350 | 3,662,116 |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***7. Balance with the National Bank of Ukraine**

| | 2014 | 2013 |
|---|------------------|------------------|
| Current account with the National Bank of Ukraine, including: | 1,513,095 | 1,100,125 |
| - part of mandatory reserve balance | 489,340 | 521,708 |
| Mandatory reserve balance | - | 442,756 |
| Other mandatory reserve balance | - | 68,031 |
| Total balance with the National Bank of Ukraine | 1,513,095 | 1,610,912 |

In accordance with the NBU requirements, the Group's mandatory reserve balance is computed as a percentage of certain Group liabilities for the prior provisioning period and amounted to UAH 1,475,475 thousand (2013: UAH 1,071,141 thousand) for December 2014.

As at 31 December 2014, the Group reserved and maintained the mandatory reserve on the correspondent account with the National Bank of Ukraine. As at 31 December 2014, 40% of the mandatory reserve balance, which is computed as a percentage of certain Group liabilities for November 2014 and comprised UAH 1,520,250 thousand, was maintained on the correspondent account with the NBU.

As at 31 December 2013, 40% of the mandatory reserve balance, which is computed as a percentage of certain of the Group's liabilities for November 2013 and comprised UAH 1,105,055 thousand was 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. As at 31 December 2013, the amount of interest accrued on the account balance was UAH 734 thousand.

The Group shall provide a daily opening balance on the current account with the NBU being 40% of the obligatory reserves for the previous month (2013: 60% for the previous month).

The Group was allowed to cover its mandatory reserve requirements by 10% of carrying value of Ukrainian State bonds nominated in foreign currency and 100% of the Group's accounts balances with PJSC "Settlements center on agreements servicing on financial markets". As at 31 December 2014 carrying value of such bonds used by the Group to cover obligatory reserves was UAH 118,703 thousand (2013: UAH 141,261 thousand). As at 31 December 2014 those balances were UAH 57 thousands (2013: UAH 64 thousand).

As at 31 December 2014, the mandatory reserve balance was not available for the Group's day-to-day operations and was excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

8. Due from other banks

| | 2014 | 2013 |
|---|------------------|------------------|
| Current accounts and overnight deposits with other banks | | |
| - OECD countries | 1,257,798 | 1,167,711 |
| - Domestic | 64,158 | 94,603 |
| - other countries | 581,544 | 84,843 |
| Total current accounts and overnight deposits with other banks | 1,903,500 | 1,347,157 |
| including interest income accrued | 820 | 308 |
| Term deposits with other banks, including: | | |
| - OECD countries | 374,987 | 188,260 |
| - Domestic | 180,566 | 586,279 |
| - other countries | 25,531 | 736 |
| Total term deposits with other banks | 581,084 | 775,275 |
| Total due from other banks | 2,484,584 | 2,122,432 |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements**

(in thousands of Ukrainian hryvnias)

8. Due from other banks (continued)

Placements were made with Ukrainian and foreign banks. Analysis by credit quality of due from other banks outstanding at 31 December 2014 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 | 16,286 | - | 16,286 |
| - A- to A+ rated | 1,241,512 | 374,987 | 1,616,499 |
| - BBB- to BBB+ rated | 4,803 | 22,965 | 27,768 |
| - BB- to BB+ rated | 576,581 | - | 576,581 |
| - B- to B+ rated | 78 | 2,566 | 2,644 |
| - CCC- to CCC+ rated | 82 | - | 82 |
| - CC- to CC+ rated | 51,496 | 63 | 51,559 |
| - Unrated | 12,662 | 180,503 | 193,165 |
| Total neither past due nor impaired | 1,903,500 | 581,084 | 2,484,584 |
| Total due from other banks | 1,903,500 | 581,084 | 2,484,584 |

The credit ratings were based on the ratings assigned by the international rating agencies Fitch, Moody's and S&P. "Unrated" mainly included Ukrainian banks, considered to be mid-size or small banks by size of total assets.

The analysis by credit quality of due from other banks outstanding at 31 December 2013 was 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 | 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 |
| Total neither past due nor impaired | 1,347,157 | 775,275 | 2,122,432 |
| Total due from other banks | 1,347,157 | 775,275 | 2,122,432 |

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

| | 2014 | 2013 |
|---|---|---|
| | Term deposits with other banks | Term deposits with other banks |
| Balance as at 1 January | - | 7,142 |
| Release of allowance | - | (657) |
| Assets written off during the year as uncollectible | - | (6,485) |
| Balance as at 31 December | - | - |

As at 31 December 2014, term deposits placed with other banks in OECD and other countries of UAH 400,518 thousand (2013: UAH 189,060 thousand) represented security deposits against import letters of credit and guarantees issued by the Group in favour of its clients.

As at 31 December 2014, UAH 842,090 thousand on current accounts and overnight deposits with other banks representing 34% of the total amount due from other banks were placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies (2013: UAH 648,212 thousand representing 31% 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).

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***9. Loans to customers**

| | 2014 | 2013 |
|-----------------------------------|-------------------|-------------------|
| Corporate loans | 25,860,295 | 17,765,892 |
| Less allowance for impairment | (2,090,666) | (1,442,960) |
| Total corporate loans | 23,769,629 | 16,322,932 |
| Loans to individuals: | | |
| Consumer loans | 3,385,574 | 3,432,438 |
| Mortgage loans | 2,970,899 | 2,234,997 |
| Car loans | 346,404 | 456,020 |
| Other loans | 881,523 | 702,709 |
| Less allowance for impairment | (2,998,421) | (1,285,873) |
| Total loans to individuals | 4,585,979 | 5,540,291 |
| Total loans to customers | 28,355,608 | 21,863,223 |

Included in gross loans to customers as at 31 December 2014 were loans with fixed interest rates of UAH 32,806,055 thousand (2013: UAH 24,357,192 thousand) and loans with floating interest rates of UAH 638,640 thousand (2013: UAH 234,864 thousand).

Movements in allowance for loan impairment

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2014 were as follows:

| | Corporate loans | Mortgage loans | Car loans | Consumer loans | Other loans to individuals | Total |
|---|------------------------|-----------------------|------------------|-----------------------|-----------------------------------|------------------|
| Allowance for impairment of loan portfolio at 1 January 2014 | 1,442,960 | 894,592 | 83,883 | 262,520 | 44,878 | 2,728,833 |
| Charge during the year | 909,825 | 401,207 | 51,660 | 1,203,438 | 301,668 | 2,867,798 |
| Recovery of loans written off in previous years | - | (34) | (242) | (5,003) | - | (5,279) |
| Loans written off during the year as uncollectable | (895,508) | (295,648) | (30,829) | (435,224) | (191,170) | (1,848,379) |
| Effect of exchange rate changes | 633,289 | 642,214 | 62,889 | 1,351 | 6,271 | 1,346,114 |
| Allowance for impairment of loan portfolio at 31 December 2014 | 2,090,666 | 1,642,331 | 167,361 | 1,027,082 | 161,647 | 5,089,087 |

For the year ended 31 December 2014, the Group changed certain aspects of the allowance for impairment of loans to customers assessment. The changes related to allocation of the borrowers in the area of ATO to a separate group. Also for the purpose of LGD statistics, loans to individuals portfolio was split into hryvnia and foreign currency parts. If the impairment allowance as at 31 December 2014 was to be calculated using the previous approach, the amount of allowance impairment would have been lower by UAH 260,394 thousand.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***9. Loans to customers (continued)**

Analysis of allowance for impairment by type and effective allowance rate was as at 31 December 2014 as follows:

| | Corporate loans | Mortgage loans | Car loans | Consumer loans | Other loans to individuals | Total |
|---|--------------------|-------------------|----------------|-------------------|----------------------------------|-------------------|
| Allowance recognised for loans individually determined to be impaired | 1,781,251 | 625,389 | 2,740 | - | - | 2,409,380 |
| Allowance recognised for loans collectively determined to be impaired | 203,495 | 983,433 | 158,581 | 953,725 | 141,299 | 2,440,533 |
| Allowance recognised on collective basis for loans without specific sign of impairment | 105,920 | 33,509 | 6,040 | 73,357 | 20,348 | 239,174 |
| Total recognised allowance for loan impairment | 2,090,666 | 1,642,331 | 167,361 | 1,027,082 | 161,647 | 5,089,087 |
| Gross amount of loans individually determined to be impaired, before deducting any impairment allowance | 4,785,759 | 1,036,132 | 2,740 | - | - | 5,824,631 |
| Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance | 393,743 | 1,424,651 | 205,839 | 1,190,819 | 179,413 | 3,394,465 |
| Gross amount of loans without specific sign of impairment, before deducting any impairment allowance | 20,680,793 | 510,116 | 137,825 | 2,194,755 | 702,110 | 24,225,599 |
| Gross amount of loans before deducting any impairment allowance | 25,860,295 | 2,970,899 | 346,404 | 3,385,574 | 881,523 | 33,444,695 |
| Provisioning rate for individually impaired loans | 37% | 60% | 100% | - | - | 41% |
| Provisioning rate for collectively impaired loans | 52% | 69% | 77% | 80% | 79% | 72% |
| Provisioning rate for loans without specific sign of impairment | 1% | 7% | 4% | 3% | 3% | 1% |

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 for impairment of loan portfolio at 1 January 2013 | 1,670,724 | 1,169,133 | 138,174 | 130,171 | 29,055 | 3,137,257 |
| Charge/ (reversal) 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 exchange rate changes | 4,062 | - | - | - | - | 4,062 |
| Allowance for impairment of loan portfolio at 31 December 2013 | 1,442,960 | 894,592 | 83,883 | 262,520 | 44,878 | 2,728,833 |

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***9. Loans to customers (continued)**

Analysis of allowance for impairment by type and effective allowance rate as at 31 December 2013 was 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 |
| Total recognised allowance for loan impairment | 1,442,960 | 894,592 | 83,883 | 262,520 | 44,878 | 2,728,833 |
| 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 |
| Gross amount of loans before deducting any impairment allowance | 17,765,892 | 2,234,997 | 456,020 | 3,432,438 | 702,709 | 24,592,056 |
| 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 | - | 2% | - | 8% | 2% | 2% |

Collateral and other credit enhancements

The amount and type of collateral required by the Group 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, deposits;
- for retail lending: property rights for movable and immovable property, deposits.

The Group also obtains guarantees from parent companies 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 2014, loans were secured by customer deposits with the Group of UAH 1,221,554 thousand (2013: UAH 640,582 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

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9. Loans to customers (continued)

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 Group's rating policy. The attributable risk ratings are assessed and updated regularly.

The following data is analysed by the Group while determining borrower's rating

- existence of first class collateral;
- rating, calculated under internal rating model.

High rating (loans with first class cash coverage) has the following characteristics: expanding operating activity of a borrower, stable financial position (sufficient equity, low dependency of external sources of funding), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position, highly effective management and organisational structure. The risk of loan quality deterioration is minimal, credit history – excellent.

Standard rating is assigned to borrowers with stable volumes of operating activity, with performance effectiveness at industry average. There is some dependency on external sources of funding. The risk of default is low. The entities with standard rating have stable market position at the regional and national level. These are entities with adequate management and organisational structure. 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 funding, repayment of loan with cash inflows might be problematic and therefore the risk of default is high. Credit history may contain significant delays in repayment of borrowings. Market position is not stable, the decrease or loss of market share is possible.

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. Creditworthiness and solvency are significantly above loan servicing level. Risk of creditworthiness deterioration is minimal.

Standard rating is assigned to the borrowers with stable financial position. Creditworthiness and solvency are sufficient for the loan servicing. The risk of default is low.

Below standard rating is assigned to the borrowers with unstable or worsening financial position. Creditworthiness and solvency are marginally sufficient for the loan servicing. The risk of default is increasing due to negative impact of external factors on cash flows available for the repayment of loan.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***9. Loans to customers (continued)**

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

| | Corporate loans | Mortgage loans | Car loans | Consumer loans | Other loans to individuals | Total |
|---|--------------------|--------------------|------------------|--------------------|----------------------------------|--------------------|
| Without individual signs of impairment | | | | | | |
| <i>Neither past due nor impaired</i> | | | | | | |
| high rating | 8,712,336 | 100,078 | 90,503 | 1,899,525 | 638,737 | 11,441,179 |
| standard rating | 4,400,913 | 145,637 | 28,585 | 35,657 | 24,514 | 4,635,306 |
| below standard rating | 7,474,458 | 167,918 | 3,282 | 182,178 | 22,637 | 7,850,473 |
| Total neither past due nor impaired | 20,587,707 | 413,633 | 122,370 | 2,117,360 | 685,888 | 23,926,958 |
| <i>Past due but not impaired</i> | | | | | | |
| - less than 30 days overdue | 86,315 | 56,911 | 9,390 | 50,165 | 8,085 | 210,866 |
| - 30 to 90 days overdue | 1,350 | 39,575 | 6,065 | 27,229 | 8,137 | 82,356 |
| - 91 to 180 days overdue | 5,422 | - | - | - | - | 5,422 |
| Total past due but not impaired | 93,087 | 96,486 | 15,455 | 77,394 | 16,222 | 298,644 |
| With individual signs of impairment | | | | | | |
| <i>Loans determined to be impaired individually or collectively</i> | | | | | | |
| - less than 30 days overdue | 2,641,423 | 54,203 | 1,739 | 130,223 | 18,422 | 2,846,010 |
| - 31 to 90 days overdue | 129,327 | 6,316 | 288 | 127,058 | 34,447 | 297,436 |
| - 91 to 180 days overdue | 693,424 | 131,793 | 18,608 | 338,945 | 107,434 | 1,290,204 |
| - 181 to 360 days overdue | 793,612 | 196,693 | 20,656 | 509,250 | 12,262 | 1,532,473 |
| - more than 360 days overdue | 921,715 | 2,071,775 | 167,288 | 85,344 | 6,848 | 3,252,970 |
| Loans determined to be impaired individually or collectively | 5,179,501 | 2,460,780 | 208,579 | 1,190,820 | 179,413 | 9,219,093 |
| Less allowance for impairment | (2,090,666) | (1,642,331) | (167,361) | (1,027,082) | (161,647) | (5,089,087) |
| Total loans to customers | 23,769,629 | 1,328,568 | 179,043 | 2,358,492 | 719,876 | 28,355,608 |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***9. Loans to customers (continued)**

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 |
|---|--------------------|-------------------|-----------------|-------------------|----------------------------------|--------------------|
| Without individual signs of impairment | | | | | | |
| <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 |
| Total neither past due nor impaired | 14,628,527 | 541,549 | 315,529 | 2,880,460 | 632,021 | 18,998,086 |
| <i>Past due but not impaired</i> | | | | | | |
| - less than 30 days overdue | 641,231 | 43,795 | 11,516 | 47,820 | 6,307 | 750,669 |
| - 31 to 90 days overdue | - | 9,466 | 3,234 | 13,665 | 2,191 | 28,556 |
| - more than 360 days overdue | 8,404 | - | - | - | - | 8,404 |
| Total past due but not impaired | 649,635 | 53,261 | 14,750 | 61,485 | 8,498 | 787,629 |
| With individual signs of impairment | | | | | | |
| <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 |
| - 31 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 |
| Loans determined to be impaired individually or collectively | 2,487,730 | 1,640,187 | 125,741 | 490,493 | 62,190 | 4,806,341 |
| Less allowance for impairment | (1,442,960) | (894,592) | (83,883) | (262,520) | (44,878) | (2,728,833) |
| Total loans to customers | 16,322,932 | 1,340,405 | 372,137 | 3,169,918 | 657,831 | 21,863,223 |

Concentration of loans to customers

As at 31 December 2014, the Group's 20 largest borrowers, with aggregate loan amount of UAH 10,216,212 thousand, represented 31% of the gross loan portfolio (2013: UAH 6,286,314 thousand and 27%, 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:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Individuals | 7,584,400 | 6,826,164 |
| Food industry and agriculture | 6,403,639 | 4,741,502 |
| Trade and agency services | 5,681,936 | 4,309,237 |
| Property development | 5,454,575 | 3,568,428 |
| Machine building | 1,963,514 | 1,151,503 |
| Non-banking financial institutions | 1,508,461 | 1,187,601 |
| Mining | 1,367,761 | 413,723 |
| Metallurgy | 1,063,203 | 742,610 |
| Woodworking | 784,658 | 554,854 |
| Transport, communication and infrastructure | 690,790 | 490,053 |
| Chemical | 128,206 | 135,240 |
| Other | 813,552 | 471,141 |
| Total loans to customers (gross amount) | 33,444,695 | 24,592,056 |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***9. Loans to customers (continued)**

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 2014, included in loans to customers were loans with the carrying value before the allowance of UAH 1,590,171 thousand (2013: UAH 1,210,290 thousand) placed as collateral for loans received from the NBU (Note 13).

As at 31 December 2015, carrying value of loans provided to customers located in Crimea is UAH 358,395 thousand (approximately 1.27% from total loans to customers).

In 2014, the Group had to move its activities from certain Eastern regions of Ukraine as described in Note 2. As at 31 December 2014, carrying value of loans provided to customers located in the conflict zone is UAH 2,195,967 thousand (approximately 7.75% from total loans to customers).

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").

Effect of collateral as at 31 December 2014 is as follows:

| | Over-collateralised assets | | Under-collateralised assets | |
|--------------------------|--|---------------------------------|--|---------------------------------|
| | Carrying value net of allowance | Fair value of collateral | Carrying value net of allowance | Fair value of collateral |
| Corporate loans | 8,757,484 | 14,281,220 | 15,012,145 | 5,579,342 |
| Mortgage loans | 1,056,622 | 2,871,853 | 271,946 | 171,614 |
| Car loans | 170,175 | 654,032 | 8,868 | 5,247 |
| Consumer loans | 698 | 1,781 | 2,357,794 | - |
| Other loans (overdrafts) | 25,675 | 65,550 | 694,201 | - |
| Total | 10,010,654 | 17,874,436 | 18,344,954 | 5,756,203 |

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

| | Over-collateralised assets | | Under-collateralised assets | |
|--------------------------|--|---------------------------------|--|---------------------------------|
| | Carrying value net of allowance | Fair value of collateral | Carrying value net of allowance | Fair value of collateral |
| 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 |
| Total | 12,717,691 | 24,168,164 | 9,145,532 | 2,300,321 |

Increase in under-collateralised loans in 2014 as compared to 2013 is due to denomination of collateral in UAH while carrying value of foreign currency denominated loans have increased as a result of UAH depreciation.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***10. Investment securities available-for-sale**

| | 2014 | 2013 |
|---|------------------|------------------|
| Ukrainian Government debt securities | 1,650,968 | 2,351,583 |
| Deposit certificates issued by the NBU | 200,041 | 400,022 |
| including accrued interest income | 41 | 22 |
| Corporate bonds | 89,318 | 86,898 |
| Total debt securities | 1,940,327 | 2,838,503 |
| Shares | 7,057 | 7,057 |
| Total investment securities available-for-sale | 1,947,384 | 2,845,560 |

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

| | Ukrainian Government debt securities | Deposit certificates issued by the NBU | Corporate bonds | Total |
|---|---|---|----------------------------|------------------|
| <i>Neither past due nor impaired</i> | | | | |
| - CCC- to CCC rated | 1,650,968 | 200,041 | - | 1,851,009 |
| - Unrated | - | - | 87,799 | 87,799 |
| Total neither past due nor impaired | 1,650,968 | 200,041 | 87,799 | 1,938,808 |
| Balances individually determined to be impaired | | | | |
| - more than 360 days overdue | - | - | 1,519 | 1,519 |
| Total individually impaired securities | - | - | 1,519 | 1,519 |
| Total debt securities | 1,650,968 | 200,041 | 89,318 | 1,940,327 |

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

| | Ukrainian Government debt securities | Deposit certificates issued by the NBU | Corporate bonds | Total |
|---|---|---|----------------------------|------------------|
| <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 |
| Total neither past due nor impaired | 2,351,583 | 400,022 | 85,379 | 2,836,984 |
| Balances individually determined to be impaired | | | | |
| - more than 360 days overdue | - | - | 1,519 | 1,519 |
| Total individually impaired securities | - | - | 1,519 | 1,519 |
| Total debt securities | 2,351,583 | 400,022 | 86,898 | 2,838,503 |

The credit ratings for Ukrainian Government debt securities' issuers and deposit certificates issued by the NBU are based on sovereign rating of Ukraine.

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

As at 31 December 2014, the Ukrainian Government debt securities include state treasury bonds with maturity dates from 7 January 2015 to 14 August 2019 and the effective interest rates from 5% to 23% p.a., and deposit certificate issued by the NBU with maturity date on 6 January 2015 and effective interest rate of 8% p.a. This deposit certificate issued by the NBU is classified by the Group as cash and cash equivalents (Note 6).

As at 31 December 2014, corporate bonds include bonds issued by corporate entities with on 9 February 2015 bearing effective interest rate 8% p.a. and overdue bonds.

As at 31 December 2014, debt securities with a carrying value of UAH 769,347 thousand (2013: UAH 177,999 thousand) were pledged as collateral for the loans received from the NBU (Note 13).

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***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 |
|--|------------------|-------------------------------------|------------------|---|--|---------------------------------------|----------------------|------------------|
| Cost or revalued amount at 1 January 2013 | 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) |
| Carrying amount at 1 January 2013 | 1,072,667 | 11,817 | 9,108 | 158,127 | 12,318 | 1,264,037 | 98,213 | 1,362,250 |
| 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) |
| Carrying amount at 31 December 2013 | 1,051,141 | 10,686 | 9,108 | 166,477 | 9,584 | 1,246,996 | 150,216 | 1,397,212 |
| 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 amortization | (279,001) | (35,642) | - | (382,576) | - | (697,219) | (114,701) | (811,920) |
| Carrying amount at 1 January 2014 | 1,051,141 | 10,686 | 9,108 | 166,477 | 9,584 | 1,246,996 | 150,216 | 1,397,212 |
| Additions | 6,840 | 5,554 | - | 39,423 | 68,952 | 120,769 | 71,444 | 192,213 |
| Disposals/write-offs | (4,296) | (1,795) | - | (4,341) | - | (10,432) | - | (10,432) |
| Transfers to another category | - | 14,891 | - | 4,829 | (19,720) | - | - | - |
| Transfers from investment property | (1,602) | - | - | - | - | (1,602) | - | (1,602) |
| Revaluation (Note 5) | 107,747 | - | - | - | - | 107,747 | - | 107,747 |
| Impairment of fixed assets in the area of ATO | - | - | - | (4,028) | - | (4,028) | - | (4,028) |
| Depreciation and amortisation charge | (23,296) | (8,294) | - | (61,914) | - | (93,504) | (49,575) | (143,079) |
| Carrying amount at 31 December 2014 | 1,136,534 | 21,042 | 9,108 | 140,446 | 58,816 | 1,365,946 | 172,085 | 1,538,031 |
| Cost or revalued amount at 31 December 2014 | 1,453,925 | 56,347 | 9,108 | 564,324 | 58,816 | 2,142,520 | 311,572 | 1,542,059 |
| Accumulated depreciation and amortisation | (317,391) | (35,305) | - | (423,878) | - | (776,574) | (139,487) | (916,061) |
| Carrying amount at 31 December 2014 | 1,136,534 | 21,042 | 9,108 | 140,446 | 58,816 | 1,365,946 | 172,085 | 1,538,031 |

As at 31 December 2014, property of the Group located in the annexed territory of Crimea, comprise premises with a carrying value of UAH 36,168 thousand.

As at 31 December 2014, property and equipment of the Group located in the area of ATO, include premises with a carrying value of UAH 339,723 thousand and computers and other equipment with a carrying value of UAH 22,930 thousand. The above computers and other equipment include objects beyond the control of the Group in terms of which the Group has recognised 100% depreciation loss of their carrying value in amount of UAH 4,028 thousand.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***11. Property and equipment, investment property and intangible assets (continued)**

As at 31 December 2014, the Group's own premises, furniture, equipment, leasehold improvements and ATMs, with a net book value of UAH 1,507,414 thousand (2013: UAH 1,203,992 thousand), were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

As at 31 December 2014, the Group's premises with a carrying value of UAH 766,877 thousand (2013: UAH 722,333 thousand) and investment property with a carrying value of UAH 39,755 thousand (2013: UAH 27,388 thousand) were pledged as collateral for loans received from the NBU (Note 13).

As at 31 December 2014, the carrying amount of premises and works of art would have been UAH 472,471 thousand (2013: UAH 452,212 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying value of the premises and works of art as follows:

| | 2014 | 2013 |
|---|----------------|----------------|
| Premises at revalued amount in the consolidated statement of financial position | 1,136,534 | 1,051,141 |
| Revaluation reserve presented in equity, net of tax | (637,032) | (592,189) |
| Deferred tax liability on revaluation of premises | (29,851) | (9,560) |
| Premises at cost less accumulated depreciation and impairment | 469,651 | 449,392 |
| 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 | (5,156) | (5,282) |
| Deferred tax liability on revaluation of works of art | (1,132) | (1,006) |
| Works of art at cost less accumulated depreciation and impairment | 2,820 | 2,820 |
| Total | 472,471 | 452,212 |

The analysis of fair value of premises and investment property sensitivity to changes in main assumptions used in the valuation as well as the management's judgment on premises revaluation of UAH 107,747 thousand, the fair value of premises and investment property in the area of ATO with a carrying value of UAH 339,723 thousand and UAH 29,255 thousand, respectively, is provided in the Note 5.

Changes in carrying value of investment property were as follows:

| | 2014 | 2013 |
|---|---------------|---------------|
| Fair value of investment property at 1 January | 82,939 | 81,648 |
| Transfer to owner-occupied premises | - | (35,823) |
| Transfer from owner-occupied premises | 1,602 | 34,581 |
| Fair value gains | 22,698 | 13,517 |
| Fair value losses | (11,088) | (10,984) |
| Fair value of investment property at 31 December | 96,151 | 82,939 |

As at 31 December 2014, the carrying value of investment property located in the area of ATO was UAH 29,255 thousand.

The rental income received from investment property in 2014 was UAH 4,860 thousand (2013: UAH 8,414 thousand) (Note 25). The operating and maintenance expenses on investment property in 2014 were UAH 2,644 thousand (2013: UAH 3,165 thousand).

The fair value gains less losses on investment property of UAH 11,610 thousand (2013: gains less losses of UAH 2,533 thousand) were recognised in the consolidated statement of income.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***12. Other assets**

| | 2014 | 2013 |
|--|----------------|----------------|
| Financial assets | | |
| Settlements on card operations | 54,478 | 106,684 |
| Settlements on cooperation agreements | 38,965 | 22,860 |
| Accrued income and settlements | 31,533 | 13,891 |
| Receivables on transfers and payments | 5,886 | - |
| Lost assets, expected for refund | 795 | - |
| Purchase of foreign currency | 442 | 26,979 |
| Derivative financial assets (Note 20) | 351 | 86,074 |
| Other financial assets | 24,199 | 4,882 |
| Allowance for impairment | (35,554) | (7,528) |
| Total financial assets | 121,095 | 253,842 |
| Non-financial assets | | |
| Reposessed real estate collateral | 225,771 | 222,639 |
| Prepaid expenses, including for assets insurance | 20,907 | - |
| Prepayments for property and equipment and intangible assets | 10,268 | 2,837 |
| Prepayments for services | 6,664 | 9,561 |
| Precious metals | 6,628 | 26,606 |
| Other non-financial assets | 13,750 | 23,997 |
| Allowance for impairment | (157) | (674) |
| Total non-financial assets | 283,831 | 284,966 |
| Total other assets | 404,926 | 538,808 |

Reposessed collateral represented assets acquired by the Group in settlement of overdue loans. The Group expects to dispose the assets in the 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:

| | 2014 | 2013 |
|---|---------------|--------------|
| Allowance for impairment as at 1 January | 7,528 | 4,302 |
| Charge for impairment | 29,819 | 5,483 |
| Assets written off during the year as uncollectible | (3,143) | (2,257) |
| Effect of exchange rate changes | 1,350 | - |
| Allowance for impairment as at 31 December | 35,554 | 7,528 |

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

| | 2014 | 2013 |
|---|------------|------------|
| Allowance for impairment as at 1 January | 674 | 362 |
| (Recovery of)/ charge for impairment | (413) | 312 |
| Assets written off during the year as uncollectible | (104) | - |
| Allowance for impairment as at 31 December | 157 | 674 |

13. Due to the National Bank of Ukraine

As at 31 December 2014, the Bank had two loans due to the National Bank of Ukraine.

In January 2009, the Bank obtained a liquidity support loan of UAH 500,000 thousand. The loan had interest at 18.5% p.a. and maturity date in December 2009. In December 2009, the maturity of the loan was extended until December 2012 with a change in the 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 2014, the carrying amount of this loan was UAH 211,202 thousand and interest at 16% p.a. (2013: UAH 262,494 thousand and 8.5% p.a. respectively).

In March 2009, the Bank obtained from the NBU a further liquidity support loan of UAH 1,336,900 thousand. The loan had interest at 16.5% p.a. and maturity in March 2010. In December 2009, the maturity of the loan was extended to April 2013 with a change in the interest rate to the official discount rate of the NBU + 2% p.a. In December 2012, the

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***13. Due to the National Bank of Ukraine (continued)**

maturity of the loan was extended to December 2016. As at 31 December 2014, the carrying value of the loan was UAH 401,994 thousand bearing 16% p.a. (2013: UAH 499,621 thousand and 8.5% p.a. respectively).

These loans are secured by loans to the Bank's customers with a carrying amount of UAH 1,590,171 thousand (Note 9) and the Bank's premises and investment property with a fair value of UAH 766,877 thousand and UAH 39,755 thousand respectively (Note 11) (2013: loans to customers with a carrying amount of UAH 1,210,290 thousand and premises and investment property of the Bank at fair value of UAH 722,333 thousand and UAH 27,388 thousand respectively, as well as debt securities with a carrying value of UAH 177,099 thousand).

In addition, in 2014 the Bank attracted three short-term loans.

In June 2014, the Bank obtained a liquidity support loan from the NBU of UAH 263,100 thousand. The loan bears 10% p.a. and matures in February 2015. The loan is secured with debt securities with a carrying value of UAH 359,328 thousand.

In June 2014, the Bank obtained a liquidity support loan from the NBU of UAH 200,750 thousand. The loan bears 18.6% p.a. and matures in January 2015. The loan is secured with debt securities with a carrying value of UAH 275,729 thousand.

In December 2014, the Bank obtained a liquidity support loan from the NBU of UAH 113,000 thousand. The loan bears 19.5% p.a. and matures in January 2015. The loan is secured with debt securities with a carrying value of UAH 134,290 thousand.

14. Due to other banks

| | 2014 | 2013 |
|---|----------------|------------------|
| Current accounts of other banks | | |
| - Domestic | 76,060 | 411,416 |
| - Non-OECD countries | 133 | 221 |
| Total current accounts of other banks | 76,193 | 411,637 |
| Term deposits of other banks | | |
| - Domestic | 167,926 | 884,004 |
| Total term deposits of other banks | 167,926 | 884,004 |
| “Repo” agreements with other banks | | |
| - Domestic | - | 57,310 |
| Total “repo” agreements with other banks | - | 57,310 |
| Total amounts due to other banks | 244,119 | 1,352,951 |

As at 31 December 2014, placements of 10 largest banks of UAH 179,037 thousand made 73% of total amounts due from other banks (2013: UAH 1,071,220 thousand, 79%).

15. Customer accounts

| | 2014 | 2013 |
|--------------------------------|-------------------|-------------------|
| Legal entities | | |
| - Current accounts | 8,636,399 | 6,443,972 |
| - Term deposits | 4,972,357 | 3,260,333 |
| Individuals | | |
| - Current accounts | 2,513,302 | 2,140,561 |
| - Term deposits | 10,150,461 | 9,222,689 |
| Total customer accounts | 26,272,519 | 21,067,555 |

As at 31 December 2014, the Group's 10 largest customers, with an aggregate amount of accounts of UAH 5,430,702 thousand represented 21% of customer accounts (2013: UAH 3,079,384 thousand or 15%).

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***15. Customer accounts (continued)**

As at 31 December 2014, included in customer accounts were deposits of UAH 1,221,554 thousand (2013: UAH 640,582 thousand) held as part of collateral for loans to customers (Note 9) and credit related commitments with a carrying amount of UAH 1,850,117 thousand (2013: UAH 558,252 thousand). In addition, UAH 130,060 thousand

(2013: UAH 586,675 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 30).

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 were as follows:

| | 2014 | 2013 |
|------------------------------------|-------------------|-------------------|
| Individuals | 12,663,763 | 11,363,250 |
| Mining and energy | 3,751,504 | 1,622,630 |
| Trade and agency services | 2,610,915 | 2,173,444 |
| Machine building | 1,452,126 | 576,763 |
| Transport and infrastructure | 1,371,703 | 886,419 |
| Metallurgy | 1,117,316 | 1,028,532 |
| Non-banking financial institutions | 408,276 | 373,869 |
| Property development | 374,324 | 592,284 |
| Food industry and agriculture | 325,787 | 276,657 |
| Chemical | 215,853 | 162,990 |
| Woodworking | 63,139 | 60,940 |
| Other | 1,917,813 | 1,949,777 |
| Total customer accounts | 26,272,519 | 21,067,555 |

16. Eurobonds issued

In February and May 2007, the Bank obtained a loan of 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 Bank.

In December 2009, as a result of the restructuring of the Bank's borrowings, the loan was replaced by a loan with interest rate of 11% p.a. and the maturity in December 2014. During 2010, the Bank repaid a part of the loan in the amount of USD 22,512 thousand being UAH 179,828 thousand in the equivalent as at the repayment date.

In December 2014, as a result of the restructuring of the Bank's borrowings, the creditor under the loan was changed to Green Finance Plc. In addition, certain changes were made to the schedule of repayment. The loan should be repaid by December 2018.

According to the repayment schedule, in December 2014 the Bank repaid part of the loan of USD 44,928 thousand being UAH 708,450 thousand in the equivalent as at the repayment date. As at 31 December 2014, the carrying value of the loan is UAH 3,272,979 thousand (2013: 1,989,283 thousand).

17. Other borrowed funds

| | 2014 | 2013 |
|-----------------------------------|---------------|---------------|
| Landesbank Berlin AG | 25,725 | 34,031 |
| DF Deutsche Forfait s.r.o. | - | 40,961 |
| Deutsche Bank | - | 9,757 |
| Other loans | - | 6,190 |
| Total other borrowed funds | 25,725 | 90,939 |

The loan from Landesbank Berlin AG is denominated in Euros and bears interest at a weighted average rate of EURIBOR + 0.25% p.a. on the outstanding amount with maturity on 6 September 2018. The interest is accrued on the outstanding amount of the loan. The loan was received for the purpose of financing the acquisition of imported equipment by Group's customers.

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)*

| 18. Other liabilities | 2014 | 2013 |
|---|----------------|----------------|
| Financial liabilities | | |
| Amounts in the course of settlements | 54,563 | 56,416 |
| Deferred income on credit lines | 26,411 | 26,797 |
| Derivative financial liabilities | - | 48,564 |
| Payable under operations with plastic cards | 24,880 | 58,846 |
| Provision for credit related commitments (Note 30) | 13,028 | 2,488 |
| Other financial liabilities | 14,256 | 9,011 |
| Total financial liabilities | 133,138 | 202,122 |
| Non-financial liabilities | | |
| Amounts payable to employees | 89,726 | 108,567 |
| Other taxes payable | 47,950 | 25,843 |
| Amounts payable for services | 13,255 | 9,398 |
| Cost of software payable under licensing agreements | 1,227 | 2,097 |
| Other accruals and deferred income | 10,383 | 12,565 |
| Total non-financial liabilities | 162,541 | 158,470 |
| Total other liabilities | 295,679 | 360,592 |

19. Subordinated debt

As at 31 December 2014, the Bank had three deposits attracted under subordinated debt terms.

The first subordinated loan in UAH was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 127,300 thousand carrying an interest rate of 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2014, the carrying amount of this subordinated debt was UAH 128,877 thousand (2013: UAH 128,647 thousand).

The second subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 135,000 thousand bearing 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2014, the carrying amount of this subordinated debt was UAH 136,671 thousand (2013: UAH 136,429 thousand).

The third subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 220,000 thousand carrying an interest rate of 9.5% p.a. and maturing in October 2015. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2014, the carrying amount of this subordinated debt was UAH 227,277 thousand (2013: UAH 221,309 thousand).

In September 2014, the Group repaid a subordinated loan of UAH 84,348 thousand (the equivalent of USD 6,500 thousand as at the date of debt repayment) before maturity.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***20. Derivative financial instruments**

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

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2014:

| | 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 |
|--|---|--|-------------------------------------|--|
| Forward currency contracts | | | | |
| Placement of UAH / Attraction of USD | 1,561,505 | (1,561,154) | 351 | - |
| Total forward currency contracts | 1,561,505 | (1,561,154) | 351 | - |
| Forward contracts on securities | | | | |
| To sell securities | 604,032 | (604,032) | - | - |
| Total forward contracts on securities | 604,032 | (604,032) | - | - |

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 |
|---|---|--|-------------------------------------|--|
| Forward currency contracts | | | | |
| 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) |
| Total forward currency contracts | 1,264,947 | (1,232,218) | 33,852 | (1,123) |
| Currency swap contracts | | | | |
| 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) |
| Total currency swap contracts | 5,325,055 | (5,319,230) | 52,222 | (46,397) |
| Commodity swap contracts | | | | |
| To sell XAU | 23,698 | (24,357) | - | (659) |
| Total commodity swap contracts | 23,698 | (24,357) | - | (659) |
| Forward contracts on securities | | | | |
| To sell securities | 1,367,348 | (1,367,733) | - | (385) |
| Total on forward contracts on securities | 1,367,348 | (1,367,733) | - | (385) |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***21. Share capital**

As at 31 December 2014, the Group's authorised share capital comprised 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 |
|----------------------------|-------------------|------------------|---------------------------|
| At 31 December 2013 | 14,323,880 | 3,294,492 | 3,427,350 |
| At 31 December 2014 | 14,323,880 | 3,294,492 | 3,427,350 |

As at 31 December 2014, all shares were fully paid and registered.

22. Segment analysis

The information on main banking segments of the Group as at 31 December 2014 is set out below:

| 2014 | Corporate banking | Retail banking (VIP and wealth clients) | Retail banking (mass segment) | Distressed assets management | Investment banking and unallocated | Total |
|--------------------------------------|-------------------|---|-------------------------------|------------------------------|------------------------------------|-------------------|
| Segment assets including | 20,923,211 | 954,522 | 3,553,961 | 3,363,088 | 8,636,497 | 37,431,279 |
| Loans to customers, net | 20,904,655 | 918,992 | 3,394,643 | 3,137,318 | - | 28,355,608 |
| - loans to customers, gross | 21,076,863 | 1,421,099 | 4,366,860 | 6,579,873 | - | 33,444,695 |
| - allowance | (172,208) | (502,107) | (972,217) | (3,442,555) | - | (5,089,087) |
| Other financial statements items | 18,556 | 35,530 | 159,318 | 225,770 | 8,636,497 | 9,075,671 |
| Segment liabilities including | 12,557,923 | 12,400,618 | 1,460,581 | - | 5,480,515 | 31,899,637 |
| Customer accounts | 12,527,170 | 12,367,263 | 1,378,086 | - | - | 26,272,519 |
| Other financial statements items | 30,753 | 33,355 | 82,495 | - | 5,480,515 | 5,627,118 |

The information on profit and loss of the reportable operating segments of the Group for 2014 is set out below:

| 2014 | Corporate banking | Retail banking (VIP and wealth clients) | Retail banking (mass segment) | Distressed assets management | Investment banking and unallocated | Total |
|--|-------------------|---|-------------------------------|------------------------------|------------------------------------|------------------|
| Interest income | 2,771,405 | 416,199 | 1,236,592 | 185,636 | 378,723 | 4,988,555 |
| Interest expense | (788,176) | (1,057,356) | (162,353) | - | (635,980) | (2,643,865) |
| Transfers | (1,096,998) | 982,522 | (427,311) | (393,356) | 935,143 | - |
| Net interest income | 886,231 | 341,365 | 646,928 | (207,720) | 677,886 | 2,344,690 |
| Net fee and commission income | 220,788 | 181,402 | 238,945 | (2,346) | 195,326 | 834,115 |
| Trading income | - | 33,064 | 8,916 | - | 1,294,320 | 1,336,300 |
| Operating expenses and other income/expenses | (268,250) | (499,246) | (393,076) | (68,365) | (596,672) | (1,825,609) |
| Allowances | (653,306) | (410,280) | (1,303,904) | (495,029) | - | (2,862,519) |
| Segment result | 185,463 | (353,695) | (802,191) | (773,460) | 1,570,860 | (173,023) |
| Income taxes | (38,782) | 73,961 | 153,952 | 161,737 | (313,651) | 37,217 |
| Profit/(loss) for the year | 146,681 | (279,734) | (648,239) | (611,723) | 1,257,209 | (135,806) |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***22. Segment analysis (continued)**

The information on main banking segments of the Group as at 31 December 2013 is set out below:

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

The information for profit and loss of the reportable operating segments of the Group for 2013 is set out below:

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

The respective operating segments were formed according to the Group's approved business development and management.

The information concerns services rendered within segments and is presented to the management of the Group responsible for decision making for the purpose of resources allocation and segment performance assessment.

For the purpose of internal management reporting, the transactions of the Group are split into the following segments:

Corporate business: this business segment includes serving current accounts of legal entities, attraction of deposits, granting credit lines in "overdraft" form, serving card accounts, granting loans and other types of finance as well as foreign exchange and trade finance transactions.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Notes to the 2014 consolidated financial statements

(in thousands of Ukrainian hryvnias)

22. Segment analysis (continued)

The corporate business segment consists of the following sub-segments: LCC (large corporate clients with annual turnover from UAH 400 million or official insiders of the Group), MCC (medium-size corporate clients with annual turnover from UAH 80 million to UAH 400 million or the limit of asset transactions per client from UAH 16 million), SCC (small and micro corporate clients with annual turnover up to UAH 80 million or the limit of asset transactions per client up to UAH 16 million), SC (state-owned companies with a share of state or communal ownership not less than 10% of the charter capital).

Retail business (VIP and affluent clients): provision of banking services to private individuals. This segment includes the same types of banking services as the segment of corporate banking servicing as well as the services of opening and maintenance of accounts of private entrepreneurs and individuals, including the accounts for personal usage, current and saving accounts, attraction of deposits, servicing of credit and debit cards under salary projects, mortgage and car lending.

Retail business (mass): provision of banking services to private individuals. This segment includes services of credit and debit cards maintenance on the open market, consumer finance and sale finance in trade networks.

Distressed asset management: this business segment includes the workout of corporate, retail (VIP and affluent) loans and securities having the following signs of impairment:

- individual assessments of impairment;
- payment delay (from 180 days of principal amount delay for retail (VIP and affluent) and 30 days for corporate clients);
- other signs of impairment according to the internal assessments by the management.

This business segment renders services of restructuring and past-due debt collection.

Investment business and unallocated items: this segment covers investment banking activity (financial instruments trade, transactions on the inter-bank market, transactions on capital markets, transactions with securities, foreign exchange and banknotes for the purpose of income gaining); asset and liability management center (is a main regulator of transfer pricing in the Group and includes the transactions aimed at liquidity support of the Group's activity); Head Office (this segment includes fixed assets, corporate rights, deferred tax assets, advances and receivables related to administrative and economic activity of the Group); and the Processing Center (this segment includes informational and technical support to payment card settlements).

Capital expenditure is not included into the segment information reviewed by the Management Board. 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 do not exceed 10% of total revenues of the Group. Revenues include interest and commission income.

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

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***23. Interest income and expense**

| | 2014 | 2013 |
|-------------------------------|--------------------|--------------------|
| Interest income | | |
| Loans to customers | | |
| - legal entities | 3,030,415 | 1,868,156 |
| - individuals | 1,582,401 | 1,247,276 |
| Securities | 241,536 | 367,992 |
| Due from other banks | 134,203 | 89,450 |
| Total interest income | 4,988,555 | 3,572,874 |
| Interest expense | | |
| Individuals | | |
| - term deposits | (1,061,748) | (956,530) |
| - current accounts | (4,327) | (12,355) |
| Legal entities | | |
| - term deposits | (528,848) | (247,805) |
| - current accounts | (407,890) | (215,126) |
| Eurobonds issued | (372,801) | (221,995) |
| Loans from the NBU | (157,980) | (80,228) |
| Subordinated debt | (65,766) | (58,458) |
| Due to other banks | (29,785) | (30,489) |
| Other borrowed funds | (14,716) | (24,631) |
| Bonds issued by the Group | (4) | (117) |
| Total interest expense | (2,643,865) | (1,847,734) |
| Net interest income | 2,344,690 | 1,725,140 |

Interest income of the Group for 2014 till the suspension of activities in Crimea and the area of ATO amounts to UAH 32,592 thousand (0.65% of total interest income) and UAH 698,824 thousand (14.01% of total interest income), respectively.

Interest expense of the Group for 2014 till the suspension of activities in Crimea and the area of ATO amounts UAH 973 thousand (0.04% of total interest expense) and UAH 447,121 thousand (16.91% of total interest expense), respectively.

After closing of the above branches, a substantial number of clients moves their services to branches located on the territories under Ukrainian control.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***24. Fee and commission income and expense**

| | 2014 | 2013 |
|---|------------------|------------------|
| Payment cards | 395,963 | 378,283 |
| Servicing loans, including under cooperation agreements | 308,798 | 363,081 |
| Settlement transactions with customers | 142,133 | 128,186 |
| Conversion operations | 135,086 | 88,595 |
| Documentary operations | 66,181 | 66,273 |
| Cash deposits and withdrawals | 35,961 | 24,188 |
| Fiduciary activities | 1,819 | 1,215 |
| Other | 28,258 | 3,827 |
| Fee and commission income | 1,114,199 | 1,053,648 |
| Payment cards | (233,797) | (218,309) |
| Purchase and collection of cash | (21,612) | (17,245) |
| Settlement transactions | (11,296) | (9,195) |
| Servicing loans | (7,879) | (10,649) |
| Documentary operations | (2,983) | (2,891) |
| Fiduciary activities | (351) | (943) |
| Fee expenses on cooperation agreements | - | (18,724) |
| Other | (2,166) | (637) |
| Fee and commission expense | (280,084) | (278,593) |
| Net fee and commission income | 834,115 | 775,055 |

Fee and commission income of the Group for 2014 till the suspension of activities in Crimea and the area of ATO amounts UAH 965 thousand (0.09% of total fee and commission income) and UAH 6,751 thousand (0.61% of total fee and commission income), respectively.

Fee and commission expense of the Group for 2014 till the suspension of activities in Crimea and the area of ATO amounts UAH 40 thousand (0.01% of total fee and commission expense) and UAH 5,982 thousand (2.14% of total fee and commission expense), respectively.

25. Other income

| | 2014 | 2013 |
|--|----------------|---------------|
| Revaluation of fixed assets | 37,124 | - |
| Penalties received | 32,481 | 23,316 |
| Other rental income | 18,678 | 11,042 |
| Income from disposal of property and equipment | 15,557 | 4,040 |
| Return of interest paid in past years due to early cancellation of deposit agreement | 10,764 | 1,237 |
| Rental income from investment properties (Note 11) | 4,860 | 8,414 |
| Gain from sale of precious metals | 313 | 1,354 |
| Gains from sale of other assets | - | 1,984 |
| Other income | 12,935 | 11,674 |
| Total other income | 132,712 | 63,061 |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***26. Operating expenses**

| | 2014 | 2013 |
|---|------------------|------------------|
| Salary, employee benefits and compulsory contributions to State funds | 778,747 | 735,067 |
| Depreciation and amortisation (Note 11) | 143,079 | 131,392 |
| State duties and taxes, other than on income | 110,670 | 17,154 |
| Contributions to Individuals Deposits Guarantee Fund | 91,477 | 82,793 |
| Lease of premises | 86,777 | 64,486 |
| Maintenance of premises and equipment | 71,585 | 82,311 |
| Advertising, entertainment expenses | 57,351 | 96,161 |
| Communication | 46,983 | 41,539 |
| Provision/ (reversal of provision) for impairment of other assets (Note 12) | 29,406 | 5,795 |
| Audit, legal, consulting services | 25,862 | 19,706 |
| Non-performing loans settlement expenses | 19,716 | 13,053 |
| Security services | 13,676 | 10,066 |
| Staff training | 11,118 | 8,757 |
| Provision for impairment of assets located in the area of ATO (Note 11) | 4,028 | - |
| Charitable contributions | 233 | 764 |
| Other | 159,307 | 79,611 |
| Total operating expenses | 1,650,015 | 1,388,655 |

Included in salary, employee benefits and compulsory contributions to State funds was the unified social tax in the amount of UAH 110,643 thousand (2013: UAH 153,336 thousand). In accordance with the Ukrainian legislation, the unified social tax shall be allocated 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 90.22% of the unified social tax, amounting to UAH 99,820 thousand in 2014 (2013: UAH 138,336 thousand).

27. Income taxes

Income tax expense was comprised of the following:

| | 2014 | 2013 |
|--|---------------|----------------|
| Current tax charge | 13,437 | 44,440 |
| Deferred tax (benefit) / expense | (50,654) | 89,176 |
| Income tax expense for the year | 37,217 | 133,616 |

The income of the Group for 2014 is taxable at the rate of 18% (2013: 19%). The reconciliation between the expected and the actual income tax expense is provided below:

| | 2014 | 2013 |
|---|------------------|----------------|
| Profit before income tax expense | (173,023) | 688,369 |
| Theoretical tax charge at the applicable statutory rate | (31,144) | 130,790 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Income recognized only in tax accounting | 5,818 | 532 |
| - Non-deductible expenses | 15,075 | 6,867 |
| - Expenses recognized only in tax accounting | (5,055) | - |
| - Correction of the current income tax in the previous periods | - | (14,531) |
| - Change of tax accounting rules starting from 1 January 2015 | 16,978 | - |
| - Other non-temporary differences | 184 | 1,256 |
| - Indexation of carrying value of fixed assets from the purpose of tax accounting | (30,773) | - |
| - Change in income tax amount for income tax rate applicable in future | (8,300) | 8,702 |
| Income tax expense for the year | (37,217) | 133,616 |

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.

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***27. Income taxes (continued)**

Deferred tax assets and liabilities as at 31 December 2014 and 31 December 2014 and their movements for the respective years are as follows:

| | 31 Decem- ber 2013 | Credited/ (charged) to comprehensive income | Credited/ (charged) to statement of income | 31 Decem- ber 2014 |
|---|-----------------------|--|---|-----------------------|
| Tax effect of deductible and taxable temporary differences | | | | |
| Allowances for loan impairment and credit related commitments | (293,135) | - | 118,619 | (174,516) |
| Investment securities available-for-sale | 28,192 | (4,486) | (9,900) | 13,806 |
| Property and equipment and investment property | (29,132) | (20,642) | 23,158 | (26,616) |
| Accrued interest and commission income | 131,359 | - | (131,359) | - |
| Accrued interest and commission expense | (3,580) | - | 3,580 | - |
| Other | 21,517 | 2,415 | (277) | 23,655 |
| Estimated net deferred tax liability | (144,779) | (22,713) | 3,821 | (163,671) |
| Tax losses carry forward | 11,093 | - | 46,833 | 57,926 |
| Net deferred tax (liability) / asset | (133,686) | (22,713) | 50,654 | (105,745) |

28. Risk management**Introduction**

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, 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 operational risks.

In connection with the merger between Bank and PJSC “BRC” planned for 2015, the unified risk management policy will be applied from the date of merger, therefore the Bank did not develop any consolidated risk management policies in 2014. 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 Management Board of the Bank, the Credit Council of the Bank and the Assets and Liabilities Management Committee of the Bank as well as 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 risk management of the Bank, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of UAH 1,500 million.

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.

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”

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(in thousands of Ukrainian hryvnias)

28. Risk management (continued)

Credit Council of the Bank

The Credit Council of the Bank approves loans issued with the maximum credit exposure of UAH 1,500 million 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 projects which maximum credit exposures exceeding UAH 200 million 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 made by the Credit Council in terms of projects which maximum credit exposures below UAH 200 million 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 decisions on restructuring and issue of loans with a maximum credit exposure of UAH 50 million. Also, the Credit Committee of the Bank approves issuance of loans which bear no credit risk covered by cash collateral. 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 of 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 identified operational risks and managing factors of operational risks, the Bank has 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 of the required optimization.

Subcommittee “External factors”

Subcommittee “External factors” analyses incidents of intentional actions of third parties, liquidation of repercussions of force majeure and intentional damage of the Bank's reputation.

Subcommittee “Systems”

Subcommittee “Systems” analyses IT systems quality issues, common understanding of IT risks and development of balanced decisions as to IT risks with consideration the specifics and interests of the 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 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 risk management. The Risk Management Division of the Bank performs current control of the above risks on a permanent basis and controls the execution of the decisions made by the Credit bodies of the Bank, the Assets and Liabilities Management Committee of the Bank, the Operational Risk Management Committee.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Notes to the 2014 consolidated financial statements

(in thousands of Ukrainian hryvnias)

28. 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 models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise should 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. The 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, limit exceptions, liquidity and interest rate risks and risk profile changes, information on operational risk. On a monthly basis, the detailed reporting on 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 a 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 the levels 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 the 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 continuous basis and are subject to a regular review. Limits on the level of credit risk per borrower are approved regularly by the Credit Council of the Bank and the Credit Committee of the Bank.

The 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. The 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 guarantees and letters of credit available to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks as 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.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***28. 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 the 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.

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.

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:

| Ratio | 2014, % | 2013, % |
|---|----------------|----------------|
| N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%) | 37.22 | 38.49 |
| N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%) | 56.40 | 66.80 |
| N6 "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%) | 106.90 | 82.06 |

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***28. Risk management (continued)***Analysis of financial liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2014 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.

| At 31 December 2014 | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 12 months | Total |
|---|--------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|-------------------|
| Due to the National Bank of Ukraine | 326,128 | 280,112 | 24,461 | 49,459 | 711,038 | 1,391,199 |
| Due to other banks | 604,105 | - | - | - | - | 604,105 |
| Customer accounts | 16,635,451 | 5,412,659 | 3,113,123 | 1,310,371 | 228,812 | 26,700,416 |
| Eurobonds issued | 18,508 | 99,497 | 90,005 | 338,644 | 3,759,649 | 4,306,303 |
| Other borrowed funds | 197 | 71 | 110 | 222 | 26,748 | 27,348 |
| Other financial liabilities | 151,540 | 13,255 | - | - | - | 164,795 |
| Subordinated debt | 9,231 | 8,784 | 13,549 | 27,395 | 790,642 | 849,601 |
| Total undiscounted financial liabilities | 17,745,160 | 5,814,378 | 3,241,248 | 1,726,091 | 5,516,890 | 34,043,767 |

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

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

| | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 12 months | Total |
|-------------|--------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|------------------|
| 2014 | 270,643 | 445,418 | 575,854 | 954,564 | 454,420 | 2,700,899 |
| 2013 | 50,101 | 845,408 | 386,438 | 1,779,563 | 268,574 | 3,330,084 |

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.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***28. 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 2014:

| | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | More than 12 months | Total |
|---|--------------------|-----------------------|-----------------------|------------------------|------------------------|-------------------|
| Assets | | | | | | |
| Cash on hand and in transit | 1,053,915 | - | - | - | - | 1,053,915 |
| Balance with the National Bank of Ukraine | 1,513,095 | - | - | - | - | 1,513,095 |
| Due from other banks | 2,077,424 | - | 362,361 | 41,081 | 3,718 | 2,484,584 |
| Loans to customers | 4,957,251 | 7,019,558 | 4,446,347 | 7,181,915 | 4,750,537 | 28,355,608 |
| Investment securities in the trading portfolio | 611,857 | 87,800 | 808,574 | 263,578 | 175,575 | 1,947,384 |
| Other financial assets | 121,095 | - | - | - | - | 121,095 |
| Total financial assets | 10,334,637 | 7,107,358 | 5,617,282 | 7,486,574 | 4,929,830 | 35,475,681 |
| Liabilities | | | | | | |
| Due to the National Bank of Ukraine | 313,750 | 263,100 | - | - | 613,196 | 1,190,046 |
| Due to other banks | 244,119 | - | - | - | - | 244,119 |
| Customer accounts | 16,506,443 | 5,281,992 | 3,016,452 | 1,253,973 | 213,659 | 26,272,519 |
| Eurobonds issued | - | - | - | - | 3,272,979 | 3,272,979 |
| Other borrowed funds | - | - | - | - | 25,725 | 25,725 |
| Subordinated debt | - | - | - | - | 492,825 | 492,825 |
| Other financial liabilities | 119,884 | 13,254 | - | - | - | 133,138 |
| Total financial liabilities | 17,184,196 | 5,558,346 | 3,016,452 | 1,253,973 | 4,618,384 | 31,631,351 |
| Liquidity gap arising from financial instruments | (6,849,559) | 1,549,012 | 2,600,830 | 6,232,601 | 311,446 | 3,844,330 |

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***28. 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:

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

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 of the Bank believes that in spite of a substantial portion of the customers demand accounts, 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 unfavourable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the 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.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***28. 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 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 its 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 with 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 2014 the Group is exposed to interest rate risk, whose realization may impact net interest income within 1-year horizon – a possible decrease by UAH 74,665 thousand (2013: decrease by UAH 66,206 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 the internal policies of the Bank, the delegation of authority regarding the change of interest rates is established. The control over transaction 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 connected with the impact of foreign exchange rates fluctuation on the value of financial instruments.

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 the 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; the 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%.

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

- 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 open positions in foreign currencies and banking metals may be closed within 10 trading days. This estimation may inaccurately reflect the 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 the 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 accepted by the Group during the day.

The results of currency risk calculation using VaR method as at 31 December 2014 are as follows:

| Index | 2014 | 2013 |
|---|----------------|----------------|
| Currency risk without diversification consideration: | | |
| USD | 105,695 | 154,985 |
| EUR | 44,009 | 3,266 |
| RUB | 4,324 | 6,129 |
| Other currencies | 7,915 | 1,861 |
| Total currency risk without diversification | 161,943 | 166,241 |
| Diversification effect | (18,253) | (21,973) |
| Currency risk with diversification consideration | 143,960 | 144,268 |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

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(in thousands of Ukrainian hryvnias)

28. Risk management (continued)

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 a monthly basis.

Operational risk

The Bank calculates the value of accepted operational risk – "risk appetite" – on an annual basis.

Risk appetite value is approved by the Operational Risk Management Division. The risk appetite value established in the Bank on the data of 2014 amounts to UAH 10,000 thousand (in 2013 – UAH 6,994 thousand).

The 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.

It should be noted that the calculation of risk appetite does not include past events that had one-off force-majeure nature and/or that are not expected to arise in the future due to elimination of their causes.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***29. 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.

| | 2014 | | | 2013 | | |
|---|----------------|------------|--------------------------|----------------|------------|--------------------------|
| | Carrying value | Fair value | Unrecognized gain/(loss) | Carrying value | Fair value | Unrecognized gain/(loss) |
| Financial assets | | | | | | |
| Cash on hand | 1,053,915 | 1,053,915 | - | 1,336,850 | 1,336,850 | - |
| Balance with the National Bank of Ukraine | 1,513,095 | 1,513,095 | - | 1,610,912 | 1,610,912 | - |
| Due from other banks | - | - | - | - | - | - |
| - Current accounts and overnight deposits | 1,903,500 | 1,903,500 | - | 1,347,157 | 1,347,157 | - |
| - Term deposits with other banks | 581,084 | 581,084 | - | 775,275 | 775,275 | - |
| Loans to customers | | | | | | |
| - Corporate loans | 23,769,629 | 23,444,733 | (324,896) | 16,322,932 | 15,648,469 | (674,463) |
| - Consumer loans | 2,358,492 | 2,358,492 | - | 3,169,918 | 3,169,918 | - |
| - Mortgage loans | 1,328,568 | 1,317,331 | (11,237) | 1,340,405 | 1,212,822 | (127,583) |
| - Car loans | 179,043 | 141,591 | (37,452) | 372,137 | 378,008 | 5,871 |
| - Other loans (overdrafts) | 719,876 | 719,876 | - | 657,831 | 657,831 | - |
| Financial liabilities | | | | | | |
| Due to the National Bank of Ukraine | 1,190,046 | 1,190,046 | - | 1,062,916 | 1,062,916 | - |
| Due to other banks | | | | | | |
| - Current accounts of other banks | 76,193 | 76,193 | - | 411,637 | 411,637 | - |
| - Term deposits of other banks | 167,926 | 167,926 | - | 884,004 | 884,004 | - |
| - Repo agreements with other banks | - | - | - | 57,310 | 57,310 | - |
| Customer accounts | | | | | | |
| - legal entities | 13,608,756 | 13,578,527 | 30,229 | 9,704,305 | 9,641,648 | 62,657 |
| - individuals | 12,663,763 | 12,450,810 | 212,953 | 11,363,250 | 11,019,744 | 343,506 |
| Eurobonds issued | 3,272,979 | 2,397,457 | 875,522 | 1,989,283 | 1,972,729 | 16,554 |
| Bonds issued | - | - | - | 109 | 112 | (3) |
| Other borrowed funds | 25,725 | 25,725 | - | 90,939 | 90,939 | - |
| Subordinated debt | 492,825 | 383,185 | 109,640 | 529,162 | 537,298 | (8,136) |
| Total unrecognized change in unrealized fair value | | | 854,759 | | | (381,597) |

PUBLIC JOINT-STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK”

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(in thousands of Ukrainian hryvnias)

29. 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 securities issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rates with usage of short-term and long-term rates ratio (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: valuation techniques for which all inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are directly or indirectly based on market data; and
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are not observable on the market.

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.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***29. 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.

| 31 December 2014 | Date of valuation | Fair value measurement using | | | Total |
|--|-------------------|------------------------------|-----------|------------|-------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Assets measured at fair value | | | | | |
| State bonds | 31 December 2014 | - | 1,650,968 | - | 1,650,968 |
| Corporate bonds | 31 December 2014 | - | 89,318 | - | 89,318 |
| Forward currency contracts | 31 December 2014 | - | 351 | - | 351 |
| NBU deposit certificates | 31 December 2014 | - | 200,041 | - | 200,041 |
| Property and equipment – premises | 1 December 2014 | - | - | 1,136,534 | 1,136,534 |
| Works of art | 31 December 2012 | - | - | 9,108 | 9,108 |
| Investment property | 1 December 2014 | - | - | 96,151 | 96,151 |
| Assets for which fair values are disclosed | | | | | |
| Cash on hand and in transit | 31 December 2014 | 1,053,915 | - | - | 1,053,915 |
| Balance with the National Bank of Ukraine | 31 December 2014 | - | 1,513,095 | - | 1,513,095 |
| Due from other banks | 31 December 2014 | - | 2,484,584 | - | 2,484,584 |
| Loans to customers | 31 December 2014 | - | - | 27,982,023 | 27,982,023 |
| Shares | 31 December 2014 | - | - | 7,057 | 7,057 |
| Liabilities for which fair values are disclosed | | | | | |
| Due to the National Bank of Ukraine | 31 December 2014 | - | 1,190,046 | - | 1,190,046 |
| Due to other banks | 31 December 2014 | - | 244,119 | - | 244,119 |
| Customer accounts | 31 December 2014 | - | - | 26,029,337 | 26,029,337 |
| Eurobonds issued | 31 December 2014 | 2,397,457 | - | - | 2,397,457 |
| Other borrowed funds | 31 December 2014 | - | 25,725 | - | 25,725 |
| Subordinated debt | 31 December 2014 | - | 383,185 | - | 383,185 |

Information about changes of value of premises, work of art and investment property during 2014 has been disclosed in Note 11.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***29. Fair value measurements (continued)**

| 31 December 2013 | Date of valuation | Fair value measurement using | | | Total |
|--|-------------------|------------------------------|-----------|------------|-------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Assets measured at fair value | | | | | |
| State bonds | 31 December 2013 | - | 2,351,583 | - | 2,351,583 |
| Corporate bonds | 31 December 2013 | - | 86,898 | - | 86,898 |
| Forward currency contracts | 31 December 2013 | - | 33,852 | - | 33,852 |
| Currency swap contracts | 31 December 2013 | - | 52,222 | - | 52,222 |
| NBU deposit certificates | 31 December 2013 | - | 400,022 | - | 400,022 |
| Property and equipment – premises | 1 December 2011 | - | - | 1,051,141 | 1,051,141 |
| Works of art | 31 December 2012 | - | - | 9,108 | 9,108 |
| Investment property | 1 December 2011 | - | - | 82,939 | 82,939 |
| Assets for which fair values are disclosed | | | | | |
| Cash on hand and in transit | 31 December 2013 | 1,336,850 | - | - | 1,336,850 |
| Balance with the National Bank of Ukraine | 31 December 2013 | - | 1,610,912 | - | 1,610,912 |
| Due from other banks | 31 December 2013 | - | 2,122,432 | - | 2,122,432 |
| Loans to customers | 31 December 2013 | - | - | 21,067,048 | 21,067,048 |
| Shares | 31 December 2013 | - | - | 7,057 | 7,057 |
| Liabilities measured at fair value | | | | | |
| Forward currency contracts | 31 December 2013 | - | (1,123) | - | (1,123) |
| Currency swap contracts | 31 December 2013 | - | (46,397) | - | (46,397) |
| Commodity swap contracts | 31 December 2013 | - | (659) | - | (659) |
| Forward contracts with securities | 31 December 2013 | - | (385) | - | (385) |
| Liabilities for which fair values are disclosed | | | | | |
| Due to the National Bank of Ukraine | 31 December 2013 | - | 1,062,916 | - | 1,062,916 |
| Due to other banks | 31 December 2013 | - | 1,352,951 | - | 1,352,951 |
| Customer accounts | 31 December 2013 | - | - | 20,661,392 | 20,661,392 |
| Eurobonds issued | 31 December 2013 | 1,972,729 | - | - | 1,972,729 |
| Bonds issued | 31 December 2013 | 112 | - | - | 112 |
| Other borrowed funds | 31 December 2013 | - | 90,939 | - | 90,939 |
| Subordinated debt | 31 December 2013 | - | 537,298 | - | 537,298 |

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.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Notes to the 2014 consolidated financial statements

(in thousands of Ukrainian hryvnias)

29. Fair value measurements (continued)

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 2014 and 2013, the Group did not transfer any financial assets or financial liabilities between fair value hierarchy levels

During 2014 and 2013, the Group recognised neither changes in the carrying values of the Level 3 financial assets at fair value nor resulting profit or loss.

30. Contingencies and commitments

Litigations

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 2014, the Group had capital expenditure commitments in respect of purchase of equipment of UAH 23,644 thousand (2013: UAH 2,403 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 2014 and 31 December 2013.

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.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***30. Contingencies and commitments (continued)**

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:

| | 2014 | 2013 |
|--|----------------|----------------|
| Import letters of credit | 334,218 | 557,301 |
| Confirmed export letters of credit | 11,187 | 152,999 |
| Cash collateral (Note 15) | (92,196) | (304,014) |
| Provision for import letters of credit | (3,473) | (579) |
| Total letters of credit | 249,736 | 405,707 |

The guarantees issued are as follows:

| | 2014 | 2013 |
|---|------------------|------------------|
| Guarantees and promissory note endorsements | 1,585,192 | 1,966,260 |
| Cash collateral (Note 15) | (43,964) | (282,661) |
| Provision for guarantees | (9,555) | (1,909) |
| Total guarantees | 1,531,673 | 1,681,690 |

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

| | 2014 | 2013 |
|---|----------------|----------------|
| Commitments to extend credit | 770,302 | 653,524 |
| Cash collateral | (83,244) | (119,280) |
| Total irrevocable commitments to extend credit | 687,058 | 534,244 |

The amount of undrawn revocable commitments to extend credit issued by the Group as at 31 December 2014 was UAH 7,381,561 thousand (2013: UAH 5,241,056 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 were as follows:

| | 2014 | 2013 |
|---|---------------|--------------|
| Provision for credit related commitments as at 1 January | 2,488 | 5,160 |
| (Reversal of provision) / charge for provision for credit related commitments during the year | 8,648 | (2,742) |
| Translation differences | 1,892 | 70 |
| Provision for letters of credit and guarantees as at 31 December (Note 18) | 13,028 | 2,488 |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***30. Contingencies and commitments (continued)****Operating lease commitments**

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

| | 2014 | 2013 |
|--|---------------|---------------|
| Within 1 year | 27,553 | 12,470 |
| From 1 to 5 years | 20,771 | 7,521 |
| Later than 5 years | - | - |
| Total operating lease commitments | 48,324 | 19,991 |

31. Pledged financial assets

The table below show financial assets pledged, but still recognised by the Group as at 31 December 2014:

| | State bonds available- for-sale | Loans to customers | Total |
|--|--|-------------------------------|------------------|
| Carrying value of assets: | | | |
| - Investment securities available-for-sale | 769,347 | - | 769,347 |
| - Loans to customers | - | 1,590,171 | 1,590,171 |
| Total | 769,347 | 1,590,171 | 2,359,518 |
| Carrying value of liabilities: | | | |
| - Due to the National Bank of Ukraine | - | - | 1,190,046 |
| Total | - | - | 1,190,046 |

Securities disclosed in the table above were assets pledged under loans received from the National Bank of Ukraine for liquidity maintenance as at 31 December 2014.

Loans to customers were 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 2014.

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

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***32. 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 2014 and 2013 and income and expenses for 2014 and 2013 are as follows:

| As at and for the year ended 31 December 2014 | Parent company | Entities under common control | Management | Other related parties |
|--|---------------------------|--|-------------------|----------------------------------|
| Assets | | | | |
| Loans to customers (interest rate, % p.a.) | - | 1,690,608 (14,70) | 240 (21) | - |
| Allowance for loan impairment | - | (1,885) | (6) | - |
| Other assets | - | 260 | - | - |
| Liabilities | | | | |
| Customer accounts (interest rate, % p.a.) | (54) | (7,078,615)(18) | (25,487) (10,05) | (36,265) (15,01) |
| Other liabilities | - | (96) | - | - |
| Credit related commitments | | | | |
| Revocable commitments to extend credit | - | 214,994 | 380 | 732 |
| Guarantees and avals | - | 19,576 | - | - |
| Letters of credit | - | 29,664 | - | - |
| Income / (expense) | | | | |
| Interest income | - | 177,134 | 24 | - |
| Interest expense | (8) | (492,046) | (1,582) | (692) |
| Fee and commission income | - | 237,914 | 62 | 7 |
| Other income | - | 273 | - | - |
| Other expense | - | (241) | (931) | - |
| Allowance for loan impairment | - | - | - | - |
| Operating expenses | - | (6,439) | (36,787) | - |

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***32. Related party transactions (continued)**

| As at and for the year ended 31 December 2013 | Parent company | Entities under common control | Management | Other related parties |
|--|---------------------------|--|-------------------|----------------------------------|
| Assets | | | | |
| 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 | - | - |
| Liabilities | | | | |
| Customer accounts (interest rate, % p.a.) | (262,293) | (4,202,421)(12.42) | (19,515)(11.95) | (27,659)(7.4) |
| Other liabilities | - | (742) | - | - |
| Credit related commitments | | | | |
| Revocable commitments to extend credit | - | 143,954 | - | - |
| Guarantees and avals | - | 31,304 | - | - |
| Letters of credit | - | 289,399 | - | - |
| Income / (expense) | | | | |
| 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) | - |

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 2014, the movements on related parties' loan accounts were as follows:

| | Parent company | Entities under common control | Management | Other related parties |
|---|---------------------------|--|-------------------|----------------------------------|
| Loans granted to related parties during the year | - | 1,058,787 | 66 | - |
| Amounts repaid by related parties during the year | - | (535,135) | (61) | (10) |
| Other change | - | 461,695 | 44 | 10 |

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

| | Parent company | Entities under common control | Management | Other related parties |
|---|---------------------------|--|-------------------|----------------------------------|
| 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 | - |

In 2014, the remuneration of the members of the Management Board comprised salaries of UAH 36,787 thousand (2013: UAH 30,334 thousand), compulsory contributions to the State funds of UAH 990 thousand (2013: UAH 841 thousand). In 2014, there was no remuneration to the members of the Supervisory Board (2013: UAH 40 thousand).

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***33. 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. The Bank does not have converted preferred shares, thus diluted earnings per share is equal to basic earnings per share.

| | 2014 | 2013 |
|--|---------------|--------------|
| (Loss)/ Profit for the year | (135,806) | 554,753 |
| Weighted average number of ordinary shares outstanding during the period | 14,323,880 | 14,323,880 |
| (Losses)/ Earnings per share, basic (in hryvnia per share) | (9,48) | 38,73 |

34. 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 5,688,065 thousand as at 31 December 2014 (2013: UAH 5,013,641 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 2014 and 2013, the Group's capital adequacy ratio on this basis was as follows:

| | 2014 | 2013 |
|-------------------------------|-------------------|-------------------|
| Main capital | 4,056,294 | 3,067,227 |
| Additional capital | 1,631,771 | 1,946,414 |
| Withdrawals | (300,786) | (300,786) |
| Excess of N9 prudential ratio | (385,329) | (560,698) |
| Total equity | 5,001,950 | 4,152,157 |
| Risk-weighted assets | 33,055,170 | 33,714,574 |
| Capital adequacy ratio | 15.13% | 12.32% |

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 by 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 2014 and 31 December 2013, 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.

PUBLIC JOINT-STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"**Notes to the 2014 consolidated financial statements***(in thousands of Ukrainian hryvnias)***34. Capital (continued)**

As at 31 December 2014 and 2013, the Group's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

| | 2014 | 2013 |
|--|------------------|------------------|
| Tier 1 capital | | |
| Share capital | 3,427,350 | 3,427,350 |
| Share premium | 56,798 | 56,798 |
| Merger reserve | 34,266 | 34,266 |
| Retained earnings | 1,353,167 | 1,485,653 |
| Total tier 1 capital | 4,871,581 | 5,004,067 |
| Tier 2 capital | | |
| Asset revaluation reserves | 660,061 | 567,461 |
| Eligible subordinated debt | 492,825 | 175,760 |
| Total tier 2 capital | 1,152,886 | 743,221 |
| Total equity | 6,024,467 | 5,747,288 |
| Capital adequacy ratio at 31 December | | |
| Risk-weighted assets | 34,661,728 | 23,007,206 |
| Total equity | 6,024,467 | 5,604,839 |
| Capital adequacy ratio (%) | 17.38% | 24.36% |

35. Subsequent events

On 14 March 2015, the Bank and PJSC "BRC" merged. The Bank became a successor of all rights and obligations of the PJSC "BRC" towards its clients, partners and counterparties. The Act of Transfer of all rights and obligations was approved by the resolution of the General Meeting of Shareholders of the Bank and the resolution of the shareholder of the PJSC "BRC". The share capital of the unified Bank has not changed while the regulatory capital increased by UAH 295 million as calculated according to the NBU requirements.

From the beginning of 2015 till the date of these consolidated financial statements, Ukrainian hryvnia has further devaluated by 45.1% to UAH 22.88203 for USD 1 as determined by the official UAH/USD exchange rate established by the NBU. The NBU has introduced certain limitations for foreign currency purchase, international payments and mandatory sale of 75% of currency proceeds.

Since the beginning of the year there has been a significant change of the NBU discount rate from 14% as at 31 December 2014 to 30% at the date when these financial statements were authorised for issue.

The Bank fulfilled its obligations to repay loans received from the NBU which matured in January-February 2015 (Note 13). In 2015, the Bank attracted new short-term loans from the NBU for liquidity purpose secured with debt securities. At the date of issue of these financial statements, the carrying value of such loans was UAH 335,279 thousand.

Signed on behalf of the Management Board on 14 April 2015

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

I. O. Kozhevina (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)