PUBLIC JOINT STOCK COMPANY
"FIRST UKRAINIAN INTERNATIONAL BANK"

Financial Statements

Year ended 31 December 2013
Together with Independent Auditors' Report

Translation from Ukrainian original

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Translation from Ukrainian original

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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 financial statements of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (further – the "Bank"), which comprise the statement of financial position as at 31 December 2013, and the statement of income, 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 financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Emphasis of matter

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

Ernst & Young Audit Services LLC

24 March 2014

(in thousands of Ukrainian hryvnias)

	Notes	2013	2012 (restated)
Assets			
Cash on hand and in transit	6	1,319,650	702,912
Balance with the National Bank of Ukraine	7	1,452,545	1,485,260
Due from other banks	8	2,765,063	2,404,678
Loans to customers	9	20,942,165	17,883,802
Investment securities in trading portfolio	10	346,387	373,793
Investment securities available for sale	10	2,845,560	3,023,680
Current income tax assets		13,201	-
Other assets	12	503,608	286,973
Property and equipment	11	1,199,511	1,227,636
Investment property	11	82,939	81,648
Intangible assets	11	130,074	84,966
Investments in subsidiaries	10	295,051	-
Deferred tax asset		-	-
Total assets		**31,895,754**	**27,555,348**
Liabilities			
Due to the National Bank of Ukraine	13	1,062,916	1,016,153
Due to other banks	14	1,390,991	1,172,038
Customer accounts	15	20,932,311	17,610,953
Eurobonds issued	16	1,989,283	1,972,640
Bonds issued	17	109	108
Other borrowed funds	18	90,939	94,637
Other liabilities	19	271,343	110,363
Subordinated debt	20	486,385	486,532
Deferred tax liability	28	129,401	46,600
Total liabilities		**26,353,678**	**22,510,024**
Equity			
Share capital	22	3,427,350	3,427,350
Share premium		56,798	56,798
Merger reserve		34,266	34,266
Revaluation reserve for property and equipment		597,471	610,234
Revaluation reserve for investment securities available for sale		(30,010)	(17,017)
Retained earnings		1,456,201	933,693
Total equity		**5,542,076**	**5,045,324**
Total liabilities and equity		**31,895,754**	**27,555,348**

Signed on behalf of the Management Board on 24 March 2014

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

I.O. Kozhevin (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)

(in thousands of Ukrainian hryvnias)

	Notes	2013	2012 (restated)
Interest income	24	3,370,044	2,479,433
Interest expense	24	(1,836,150)	(1,598,237)
Net interest income	**24**	**1,533,894**	**1,151,196**
Allowance for impairment	8,9	(516,998)	(285,610)
Net interest income after allowance for loan impairment		**1,016,896**	**865,586**
Fee and commission income	25	764,698	495,605
Fee and commission expense	25	(272,864)	(188,062)
Net fee and commission income	**25**	**491,834**	**307,543**
Net gains from dealing in foreign currencies		24,678	67,357
Foreign exchange translation result		(506)	(36,479)
Net gains from investment securities available for sale		4,620	3,079
Net (losses) / gains from securities in trading portfolio		(13,552)	237
Reversal of / (charge to) provision for credit related commitments	31	2,742	(3,522)
Gains less losses on revaluation of investment property		2,533	19
Allowance for Impairment of investment securities available for sale		-	(589)
Gains less losses from financial derivatives		48,464	113,006
Other income	26	56,112	29,869
Operating income		**1,633,821**	**1,346,106**
Operating expenses	27	(992,916)	(946,058)
Profit before income tax expense		**640,905**	**400,048**
Income tax expense	28	(131,160)	(136,127)
Net profit for the year		**509,745**	**263,921**
Earnings per share (in Ukrainian hryvnias per share)	**34**	**35.59**	**18.43**

Signed on behalf of the Management Board on 24 March 2014

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O. M. Moshkalova (Chief Accountant)

The notes set out on pages 6 to 69 form an integral part of these financial statements.

Statement of Comprehensive Income for 2013

(in thousands of Ukrainian hryvnias)

	2013	**2012** (restated)
Net profit for the year	**509,745**	**263,921**
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealized losses on investment securities available-for-sale	(9,816)	(66,645)
Realized gains on investment securities available-for-sale reclassified to the statement of profit or loss	(4,620)	(3,079)
Income tax effect	1,443	12,565
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(12,993)**	**(57,159)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of property and equipment	-	6,295
Income tax effect	-	(1,010)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**-**	**5,285**
Other comprehensive income for the year, net of tax	**(12,993)**	**(51,874)**
Total comprehensive income for the year	**496,752**	**212,047**

Signed on behalf of the Management Board on 24 March 2014

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

I.O. Kozhevin (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)

(in thousands of Ukrainian hryvnias)

	2013	**2012**
Cash flows from operating activities:		
Interest income received	3,368,630	2,665,835
Interest expense paid	(1,719,211)	(1,491,344)
Fee and commission income received	764,417	495,005
Fee and commission expense paid	(264,806)	(189,268)
Income received from trading in foreign currencies	24,678	67,357
(Loss)/Gains from operations with investments securities	(4,723)	1,021
Gains less losses from financial derivatives	43,298	113,006
Other income received	56,292	30,064
Operating expenses paid	(851,669)	(836,166)
Income tax paid	(60,117)	(58,311)
Cash flows from operating activities before changes in operating assets and liabilities	**1,356,789**	**797,199**
Net (increase)/decrease in operating assets:		
Mandatory reserve balance with the National Bank of Ukraine	(571,443)	(85,684)
Due from other banks	(388,151)	327,609
Investment securities in trading portfolio	50,533	(361,619)
Loans to customers	(3,785,196)	(1,741,785)
Other assets	(62,597)	36,367
Net increase/(decrease) in operating liabilities:		
Due to the National Bank of Ukraine	45,962	-
Due to other banks	224,549	649,688
Customer accounts	3,301,287	(2,701,573)
Other liabilities	73,920	2,357
Net cash used in operating activities	**245,653**	**(3,077,441)**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(106,922)	(100,967)
Proceeds from sale of property and equipment and intangible assets	7,573	3,045
Purchase of investment securities available for sale	(10,459,707)	(11,367,147)
Proceeds from sale and redemption of investment securities available for sale	11,030,369	12,481,522
Investments in subsidiaries	(295,051)	-
Net cash from investing activities	**176,262**	**1,016,453**
Cash flows from financing activities		
Redemption of subordinated debt	-	(199,825)
Redemption of other borrowed funds	(6,953)	(310,284)
Net cash used in financing activities	**(6,953)**	**(510,109)**
Effect of exchange rate changes on cash and cash equivalents	(22,727)	(4,305)
Net increase/(decrease) in cash and cash equivalents	**392,235**	**(2,575,402)**
Cash and cash equivalents at the beginning of the year	3,835,474	6,410,876
Cash and cash equivalents at the end of the year (Note 6)	**4,227,709**	**3,835,474**

Signed on behalf of the Management Board on 24 March 2014

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Statement of Changes in Equity for 2013

(in thousands of Ukrainian hryvnias)

	Share capital	Share premium	Merger reserve	Revaluation reserve for property and equipment	Revaluation reserve for investment securities available for sale	Retained earnings	Total equity
Balance at 1 January 2012	**3,427,350**	**56,798**	**34,266**	**617,274**	**40,142**	**657,447**	**4,833,277**
Net profit for the year	-	-	-	-	-	263,921	263,921
Other comprehensive income / (loss) for the year	-	-	-	5,285	(57,159)	-	(51,874)
Total comprehensive income for the year	-	-	-	5,285	(57,159)	263,921	212,047
Transfer of property and equipment revaluation	-	-	-	(12,325)	-	12,325	-
Balance at 31 December 2012 (restated)	**3,427,350**	**56,798**	**34,266**	**610,234**	**(17,017)**	**933,693**	**5,045,324**
Net profit for the year	-	-	-	-	-	509,745	509,745
Other comprehensive income / (loss) for the year	-	-	-	-	(12,993)	-	(12,993)
Total comprehensive income for the year	-	-	-	-	(12,993)	509,745	496,752
Transfer of property and equipment revaluation	-	-	-	(12,763)	-	12,763	-
Balance at 31 December 2013	**3,427,350**	**56,798**	**34,266**	**597,471**	**(30,010)**	**1,456,201**	**5,542,076**

Signed on behalf of the Management Board on 24 March 2014

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O. M. Moshkalova (Chief Accountant)

1. Principal activities

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

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

On 12 December 2013 the Bank acquired 100% of shares of PUBLIC JOINT-STOCK COMPANY "BANK RENAISSANCE CAPITAL" (the "PJSC "BRC" or subsidiary). Principal activity of PJSC "BRC" is a provision of banking services to private individuals in Ukraine.

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

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

2. Operating environment of the Bank

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

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

Furthermore, from 1st January 2014 to 24th March 2014, the Ukrainian hryvnia devaluated against major foreign currencies by approximately 27,6%, and the National Bank imposed certain restrictions for legal entities on purchase of foreign currencies at the interbank market.

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

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

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

3. Basis of preparation

General

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

(in thousands of Ukrainian hryvnias)

3. Basis of preparation (Continued)

Changes in presentation

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

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

The Bank does not disclose statement of financial position as at 31 December 2011 in the financial statement as these changes have no effect on the statement of financial position as at 31 December 2011.

Inflation accounting

The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Bank 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 Bank adopted the following amended IFRS and IFRIC Interpretations during the reporting year.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

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

4. Summary of significant accounting policies (Continued)

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

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

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

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

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

IAS 1 Clarification of the Requirement for Comparative Information (amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Bank's financial position or performance.

Accounting of investments in subsidiaries

Subsidiaries are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Investments in subsidiaries are measured at cost except for provision for impairment.

4. Summary of significant accounting policies (Continued)

Financial assets

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the primary (or in the absence of a principal, in the most advantageous) market under current market conditions (i.e. an exit price), using either quoted prices or valuation techniques.
The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs - unobservable inputs for the asset or liability

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

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

The principal or the most advantageous market must be accessible by the Bank. 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 Bank 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 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.

4. Summary of significant accounting policies (Continued)

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

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 statement of income when the loans and receivables are derecognised or impaired, income is recognised through the amortisation process.

4. Summary of significant accounting policies (Continued)

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 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 Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the 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 statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

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

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the 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 statement of income. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes

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

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 Bank 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.

4. Summary of significant accounting policies (Continued)

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 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 Bank. If an exposure written off is later recovered, the recovery is credited to allowance for loan impairment in the 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 Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

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

Repossessed collateral
Repossessed collateral represents financial and non-financial assets acquired by the Bank 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 Bank'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.

Available-for-sale financial investments
For available-for-sale financial investments, the Bank assesses at each 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 statement of income – is removed from other comprehensive income and recognised in the statement of income. Impairment losses on equity investments are not reversed through the 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 statement of income, the impairment loss is reversed through the statement of income.

4. Summary of significant accounting policies (Continued)

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

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

Financial liabilities

Initial recognition
Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. Financial liabilities are measured at fair value on initial recognition, unless those liabilities are not at fair value through profit or loss, directly attributable transaction costs. The Bank 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 Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than for a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, customer accounts, subordinated debt, Eurobonds issued, bonds issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the borrowings are derecognised, expense is recognised through the amortisation process.

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

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 statement of income.

Other credit related commitments
In the normal course of business, the Bank 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.

4. Summary of significant accounting policies (Continued)

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 statement of income.

Offsetting

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

Derivative financial instruments

In the normal course of business, the Bank 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 statement of income as gains less losses from financial derivatives.

Precious metals

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

Property and equipment

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

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

Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the 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 Bank; 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.

4. Summary of significant accounting policies (Continued)

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 Bank 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 Bank'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 Bank 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 Bank, to earn rental income or for capital appreciation.

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date. Gains and losses resulting from changes in the fair value of investment property are recorded in the 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.

4. Summary of significant accounting policies (Continued)

Foreign currency translation

The Ukrainian hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank 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 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 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 Bank 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 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 statement of income except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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

Fiduciary activities

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

4. Summary of significant accounting policies (Continued)

Provisions for contingencies

Provisions are recognised when the Bank 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 Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank 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 Bank 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 Bank is a lessor, assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the statement of income on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation are added to the carrying amount of the leased asset.

Segment reporting

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

Amendments of the financial statements after issue.

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

New Accounting Pronouncements

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

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

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have a material impact on its financial statements.

4. Summary of significant accounting policies (Continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

5. Critical accounting estimates and judgements in applying accounting policies

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

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

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

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

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

(in thousands of Ukrainian hryvnias)

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

Related party transactions

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

Fair value of financial instruments

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

6. Cash and cash equivalents

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

	2013	**2012** (restated)
Cash on hand and in transit	1,319,650	702,912
Current accounts and overnight deposits with other banks (Note 8)	2.,090,765	2,108,380
Current accounts and overnight deposits with other banks – interest income accrued (Note 8)	(4,210)	(1,478)
Current account with the National Bank of Ukraine (Note 7)	942,340	1,382,844
Current account with the National Bank of Ukraine – mandatory reserve balance (Note 7)	(520,836)	(357,184)
Deposit certificates (Note 10)	400,000	-
Total cash and cash equivalents	**4,227,709**	**3,835,474**

7. Balance with the National Bank of Ukraine

	2013	**2012** (restated)
Current account with the National Bank of Ukraine, including:	942,340	1,382,844
part of mandatory reserve balance	520,836	357,184
Mandatory reserve balance	442,174	68,238
Other mandatory reserve balance	68,031	34,178
Total balance with the National Bank of Ukraine	**1,452,545**	**1,485,260**

In accordance with the NBU requirements, the Bank is required to maintain the mandatory reserve balance with the NBU, which is computed as a percentage of certain of the Bank's liabilities for the prior period of provisioning. Mandatory reserve balance for December 2013 amounted to UAH 1,069,843 thousand (2012: UAH 742,819 thousand). As at 31 December 2013, 40% of the mandatory reserve balance for the previous month amounted to 1,103,601 thousand (2012: 50% of the mandatory reserve balance for the previous month in the amount of UAH 714,368 thousand) should be maintained on a separate account with the NBU, with interest accrued at 30% of the official discount rate of the NBU, being 1.95 % as at 31 December 2013 (2012: 2.25%). As at 31 December 2013, the amount of interest accrued on the account balance was UAH 734 thousand (2012: UAH 139 thousand).

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

(in thousands of Ukrainian hryvnias)

7. Balance with the National Bank of Ukraine

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

"Settlements center on agreements servicing on financial markets". As at 31 December 2013 those balances amounted to UAH 64 thousands (2012: nil).

In 2012 it was allowed to account 50% of nominal value of Euro-2012 Ukrainian domestic state bonds and 10% of nominal value of Ukrainian domestic bonds denominated in foreign currencies to cover obligatory reserves accounted on the separate account with the NBU. As at 31 December 2013 carrying value of the bonds amounted to nil (2012: 289,085 UAH thousand).

Therefore, as at 31 December 2013, 100% of the mandatory reserve (2012: 100% of the mandatory reserve) is not available for the Bank's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

In addition, the Bank is required to keep other mandatory reserves on the separate account with the NBU for:
- impairment provisions determined according to the NBU requirements created for loans granted in foreign currency to borrowers with no foreign currency income;
- foreign currency deposits and loans received from non-residents for a period of less than 183 calendar days.

8. Due from other banks

	2013	**2012**
Current accounts and overnight deposits with other banks		
- OECD countries	1,167,711	1,679,934
- Domestic	838,211	365,384
- Non-OECD countries	84,843	63,062
Total current accounts and overnight deposits with other banks	**2,090,765**	**2,108,380**
including interest income accrued	4,210	1,478
Term deposits with other banks, including:		
- OECD countries	188,260	170,887
- Domestic	485,302	131,567
- Non-OECD countries	736	329
Allowance for impairment	-	(6,485)
Total term deposits with other banks	**674,298**	**296,298**
Total due from other banks	**2,765,063**	**2,404,678**

(in thousands of Ukrainian hryvnias)

8. Due from other banks (Continued)

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

	Current accounts and overnight deposits with other banks	**Term deposits with other banks**	**Total**
Neither past due nor impaired			
- 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	736	1,341
- CCC- to CCC+ rated	73,526	32	73,558
- Unrated	764,857	669,834	1,434,691
Total neither past due nor impaired	**2,090,765**	**674,298**	**2,765,063**
Total due from other banks	**2,090,765**	**674,298**	**2,765,063**

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

(in thousands of Ukrainian hryvnias)

8. Due from other banks (Continued)

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

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Total
Neither past due nor impaired			
- AA- to AA+ rated	232,072	-	232,072
- A- to A+ rated	1,437,771	170,887	1,608,658
- BBB- to BBB+ rated	21,554	-	21,554
- BB- to BB+ rated	40,787	-	40,787
- B- to B+ rated	721	329	1,050
- CCC- to CCC+ rated	89,282	32	89,314
- CC- to CC+ rated	-	81,196	81,196
- Unrated	286,193	43,854	330,047
Total neither past due nor impaired	**2,108,380**	**296,298**	**2,404,678**
Balances individually determined to be impaired			
– over 360 days overdue	-	6,485	6,485
Total individually impaired	**-**	**6,485**	**6,485**
Less allowance for impairment	-	(6,485)	(6,485)
Total due from other banks	**2,108,380**	**296,298**	**2,404,678**

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

	2013	**2012** (restated)
	Term deposits with other banks	Term deposits with other banks
Balance as at 1 January	**6,485**	**7,224**
Release of allowance	-	(739)
Assets written off during the year as uncollectible	(6,485)	-
Balance as at 31 December	**-**	**6,485**

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

As at 31 December 2013 the amount of UAH 764,366 thousand (representing 27.6% of the total amount due from other banks) was placed on current accounts and overnight deposits with PJSC "BRC" and the amount of UAH 648,212 thousand (representing 23% of the total amount due from other banks) was placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies (2012: UAH 1,020,442 thousand representing 42% of the total amounts due from other banks was placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies).

(in thousands of Ukrainian hryvnias)

9. Loans to customers

	2013	2012 (restated)
Corporate loans	17,765,892	15,389,700
Less allowance for impairment	(1,442,960)	(1,670,724)
Total corporate loans	**16,322,932**	**13,718,976**
Loans to individuals:		
Consumer loans	3,011,859	1,979,640
Mortgage loans	2,234,997	2,968,273
Car loans	456,020	606,272
Other loans	157,662	48,927
Less allowance for impairment	(1,241,305)	(1,438,286)
Total loans to individuals	**4,619,233**	**4,164,826**
Total loans to customers	**20,942,165**	**17,883,802**

Included in gross loans to customers as at 31 December 2013 were loans with fixed interest rates of UAH 23,391,566 thousand (2012: UAH 20,542,721 thousand) and loans with floating interest rates of UAH 234,864 thousand (2012: UAH 450,091 thousand).

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

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at 1 January 2013	**1,670,724**	**1,169,133**	**138,174**	**126,144**	**4,835**	**3,109,010**
Provision/(reversal of provision) during the year	242,125	(61,673)	47,722	285,388	3,436	516,998
Loans written off during the year as uncollectable	(473,951)	(212,868)	(102,013)	(152,946)	(4,027)	(945,805)
Effect of translation to presentation currency	4,062	-	-	-	-	4,062
Allowance for impairment of loan portfolio at 1 January 2013	**1,442,960**	**894,592**	**83,883**	**258,586**	**4,244**	**2,684,265**

(in thousands of Ukrainian hryvnias)

9. Loans to customers (Continued)

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

	Corporate loans	**Mortgage loans**	**Car loans**	**Consumer loans**	**Other loans to individuals**	**Total**
Allowance recognised for loans individually determined to be impaired	1,196,745	366,304	1,440	-	-	1,564,489
Allowance recognised for loans collectively determined to be impaired	186,545	518,873	81,598	27,369	2,815	817,200
Allowance recognised on collective basis for loans without specific sign of impairment	59,670	9,415	845	231,217	1,429	302,576
Total recognised allowance for loan impairment	**1,442,960**	**894,592**	**83,883**	**258,586**	**4,244**	**2,684,265**
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	488,442	3,208	1,727,399
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	15,278,162	594,810	330,279	2,523,417	154,454	18,881,122
Gross amount of loans before deducting any impairment allowance	**17,765,892**	**2,234,997**	**456,020**	**3,011,859**	**157,662**	**23,626 430**
Provisioning rate for individually impaired loans	55%	44%	81%	-	-	52%
Provisioning rate for collectively impaired loans	62%	64%	66%	6%	88%	47%
Provisioning rate for loans without specific sign of impairment	0%	2%	0%	9%	1%	2%

(in thousands of Ukrainian hryvnias)

9. Loans to customers (Continued)

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

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at 1 January 2012	**1,706,898**	**2,078**	**1,083,184**	**110,371**	**24,189**	**4,979**	**2,931,699**
Provision/(reversal of provision) during the year	39,618	(2,078)	117,233	27,803	102,998	775	286,349
Loans written off during the year as uncollectable	(75,792)	-	(31,284)	-	(1,043)	(919)	(109,038)
Allowance for impairment of loan portfolio at 31 December 2012	**1,670,724**	**-**	**1,169,133**	**138,174**	**126,144**	**4,835**	**3,109,010**

(in thousands of Ukrainian hryvnias)

9. Loans to customers (Continued)

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

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	1,368,010	607,564	4,748	-	-	1,980,322
Allowance recognised for loans collectively determined to be impaired	252,891	549,471	130,110	105,627	4,628	1,042,727
Allowance recognised on collective basis for loans without specific sign of impairment	49,823	12,098	3,316	20,517	207	85,961
Total recognised allowance for loan impairment	**1,670,724**	**1,169,133**	**138,174**	**126,144**	**4,835**	**3,109,010**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	2,698,093	1,251,672	5,132	-	-	3,954,897
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	391,529	896,990	184,151	232,980	5,020	1,710,670
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	12,300,078	819,611	416,989	1,746,660	43,907	15,327,245
Gross amount of loans before deducting any impairment allowance	**15,389,700**	**2,968,273**	**606,272**	**1,979,640**	**48,927**	**20,992,812**
Provisioning rate for individually impaired loans	51%	49%	93%	-	-	50%
Provisioning rate for collectively impaired loans	65%	61%	71%	45%	92%	61%
Provisioning rate for loans without specific sign of impairment	0%	1%	1%	1%	0%	1%

9. Loans to customers (Continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

Credit quality of the loan portfolio

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

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

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

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

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

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

(in thousands of Ukrainian hryvnias)

9. Loans to customers (Continued)

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

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

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

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

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

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to indivi-duals	Total
Neither past due nor impaired						
high rating	6,938,486	355,540	203,370	2,373,173	131,578	10,002,147
standard rating	4,486,514	114,124	97,143	58,073	4,906	4,760,760
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**	**2,461,933**	**145,955**	**18,093,493**
Past due but not impaired						
- less than 30 days overdue	641,231	43,795	11,516	47,820	6,307	750,669
- 30 to 90 days overdue	-	9,466	3,234	13,665	2,191	28,556
- more than 360 days overdue	8,404	-	-	-	-	8,404
Total past due but not impaired	**649,635**	**53,261**	**14,750**	**61,485**	**8,498**	**787,629**
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	1,007,569	84,365	74	127,412	-	1,219,420
- 30 to 90 days overdue	26,191	12,959	-	91,643	-	130,793
- 91 to 180 days overdue	40,541	12,330	4,430	91,430	1,277	150,008
- 181 to 360 days overdue	110,159	327,285	4,770	124,970	635	567,819
- more than 360 days overdue	1,303,270	1,203,248	116,467	52,987	1,296	2,677,268
Loans determined to be impaired individually or collectively	**2,487,730**	**1,640,187**	**125,741**	**488,442**	**3,208**	**4,745,308**
Less allowance for impairment	**(1,442,960)**	**(894,592)**	**(83,883)**	**(258,586)**	**(4,244)**	**(2,684,265)**
Total loans to customers	**16,322,932**	**1,340,405**	**372,137**	**2,753,274**	**153,417**	**20,942,165**

(in thousands of Ukrainian hryvnias)

9. Loans to customers (Continued)

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

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Neither past due nor impaired						
high rating	4,337,274	522,870	279,012	1,689,920	22,173	6,851,249
standard rating	5,588,660	160,715	107,882	12,349	16,697	5,886,303
below standard rating	2,317,345	50,773	3,686	6,720	185	2,378,709
Total neither past due nor impaired	**12,243,279**	**734,358**	**390,580**	**1,708,989**	**39,055**	**15,116,261**
Past due but not impaired						
- less than 30 days overdue	38,047	61,618	18,792	31,572	2,694	152,723
- 30 to 90 days overdue	-	23,635	7,617	6,099	2,158	39,509
- 181 to 360 days overdue	7,202	-	-	-	-	7,202
- more than 360 days overdue	11,550	-	-	-	-	11,550
Total past due but not impaired	**56,799**	**85,253**	**26,409**	**37,671**	**4,852**	**210,984**
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	1,096,168	132,988	-	69,123	-	1,298,279
- 30 to 90 days overdue	118,097	382,585	-	43,794	-	544,476
- 91 to 180 days overdue	102,318	21,429	5,299	37,679	464	167,189
- 181 to 360 days overdue	76,221	152,682	9,344	59,460	168	297,875
- more than 360 days overdue	1,696,818	1,458,978	174,640	22,924	4,388	3,357,748
Loans determined to be impaired individually or collectively	**3,089,622**	**2,148,662**	**189,283**	**232,980**	**5,020**	**5,665,567**
Less allowance for impairment	**(1,670,724)**	**(1,169,133)**	**(138,174)**	**(126,144)**	**(4,835)**	**(3,109,010)**
Total loans to customers	**13,718,976**	**1,799,140**	**468,098**	**1,853,496**	**44,092**	**17,883,802**

(in thousands of Ukrainian hryvnias)

9. Loans to customers (Continued)

Concentration of loans to customers
As at 31 December 2013, the Bank's 20 largest borrowers, with aggregate loan amount of UAH 6,286,314 thousand, represented 27% of the gross loan portfolio (2012: UAH 5,304,357 thousand and 25% 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:

	2013	**2012** (restated)
Individuals	5,860,538	5,603,112
Food industry and agriculture	4,716,283	3,322,913
Trade and agency services	4,162,186	4,063,341
Property development	3,071,537	3,131,360
Non-banking financial institutions	1,187,601	632,447
Machine building	1,151,503	1,176,430
Transport, communication and infrastructure	1,138,732	669,424
Metallurgy	755,666	1,062,654
Woodworking	554,854	506,572
Mining	413,723	126,442
Chemical	135,240	179,468
Other	478,567	518,649
Total loans to customers (gross amount)	**23,626,430**	**20,992,812**

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

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

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

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

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	2,752,475	-
Car loans	341,490	815,463	30,647	2,121
Other loans (overdrafts)	26,200	71,758	127,218	6
Total	**12,717,691**	**24,168,164**	**8,224,474**	**2,300,321**

(in thousands of Ukrainian hryvnias)

9. Loans to customers (Continued)

Effect of collateral as at 31 December 2012 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	9,729,161	18,967,429	3,989,815	2,601,067
Mortgage loans	1,231,506	2,452,334	567,634	329,214
Car loans	431,555	966,944	36,543	3,553
Consumer loans	1,012	2,409	1,852,484	-
Other loans (overdrafts)	19,436	88,729	24,656	-
Total	**11,412,670**	**22,477,845**	**6,471,132**	**2,933,834**

10. Investment securities

Investment securities in the trading portfolio

	2013	**2012** (restated)
Ukrainian Government debt securities	346,387	373,793
Total investment securities in the trading portfolio	**346,387**	**373,793**

Investment securities in the trading portfolio are rated from B- to B+.

Investment securities available for sale

	2013	**2012** (restated)
Ukrainian Government debt securities	2,351,583	2,875,298
Deposit certificates issued by the NBU	400,022	-
Including accrued interest income	22	-
Corporate bonds	86,898	141,325
Total debt securities	**2,838,503**	**3,016,623**
Shares	7,057	7,057
Total investment securities available for sale	**2,845,560**	**3,023,680**

(in thousands of Ukrainian hryvnias)

10. Investment securities (Continued)

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

	Ukrainian Government debt securities	Deposit certificates issued by the NBU	Corporate bonds	Total
Neither past due nor impaired				
- 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**

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

	Ukrainian Government debt securities	Corporate bonds	Total
Neither past due nor impaired			
- B- to B+ rated	2,875,298	-	2,875,298
- Unrated	-	139,806	139,806
Total neither past due nor impaired	**2,875,298**	**139,806**	**3,015,104**
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	**2,875,298**	**141,325**	**3,016,623**

Investments in Subsidiaries and Associates

	2013	2012
Investments in subsidiaries	295,051	-
Total investments in subsidiaries and associates	295,051	**-**

Investments in subsidiaries are securities without rating.

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

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

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

(in thousands of Ukrainian hryvnias)

10. Investment securities (Continued)

As at 31 December 2013, debt securities with a carrying amount of UAH 177,999 thousand (2012: UAH 85,024 thousand) were pledged as collateral for the loans received from the NBU, and debt securities at carrying value of UAH 305,778 thousand (2012: nil) were pledged as collateral for loans received from the NBU under "repo" deals terms (Note 13).

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

11. Property and equipment, investment property and intangible assets

	Premises	Leasehold improve-ments	Works of art	Computers and other equip-ment	Capital investments in property and equip-ment	Total property and equip-ment	Intangible assets	Total
Cost or revalued amount at 31 December 2011	1,335,019	31,183	2,813	413,080	12,460	1,794,555	114,302	1,908,857
Accumulated depreciation and amortisation	(231,632)	(23,926)	-	(272,344)	-	(527,902)	(54,658)	(582,560)
Carrying amount at 1 January 2012	**1,103,387**	**7,257**	**2,813**	**140,736**	**12,460**	**1,266,653**	**59,644**	**1,326,297**
Additions	-	-	-	54,854	4,448	59,302	48,173	107,475
Disposals/write-offs	-	(443)	-	(5,893)	-	(6,336)	(3,765)	(10,101)
Transfers to another category	6,385	1,191	-	-	(7,576)	-	-	-
Transfers to investment property	(27,618)	-	-	-	-	(27,618)	-	(27,618)
Transfers from investment property	16,656	-	-	-	-	16,656	-	16,656
Revaluation	-	-	6,295	-	-	6,295	-	6,295
Depreciation and amortisation charge	(26,143)	(3,934)	-	(57,239)	-	(87,316)	(19,086)	(106,402)
Carrying amount at 31 December 2012	**1,072,667**	**4,071**	**9,108**	**132,458**	**9,332**	**1,227,636**	**84,966**	**1,312,602**
Cost or revalued amount at 31 December 2012	1,333,068	27,309	9,108	437,098	9,332	1,815,915	154,607	1,970,522
Accumulated depreciation and amortisation	(260,401)	(23,238)	-	(304,640)	-	(588,279)	(69,641)	(657,920)
Carrying amount at 1 January 2013	**1,072,667**	**4,071**	**9,108**	**132,458**	**9,332**	**1,227,636**	**84,966**	**1,312,602**
Additions	5,301	2,305		31,506	18,661	57,773	70,463	128,236
Disposals/write-offs	(3,176)	(106)		(526)	(3,725)	(7,533)	(282)	(7,815)
Transfers to another category	-	-	-	16,895	(16,895)	-	-	-
Transfers from investment property	1,242	-	-	-	-	1,242	-	1,242
Depreciation and amortisation charge	(24,893)	(1,678)	-	(53,036)	-	(79,607)	(25,073)	(104,680)
Carrying amount at 31 December 2013	**1,051,141**	**4,592**	**9,108**	**127,297**	**7,373**	**1,199,511**	**130,074**	**1,329,585**
Cost or revalued amount at 31 December 2013	1,330,142	26,913	9,108	475,395	7,373	1,848,931	222,637	2,071,568
Accumulated depreciation and amortisation	(279,001)	(22,321)	-	(348,098)	-	(649,420)	(92,563)	(741,983)
Carrying amount at 31 December 2013	**1,051,141**	**4,592**	**9,108**	**127,297**	**7,373**	**1,199,511**	**130,074**	**1,329,585**

(in thousands of Ukrainian hryvnias)

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

As at 31 December 2013, the Bank's own premises, furniture, equipment, leasehold improvements and ATMs, with a net book value of UAH 1,170,550 thousand (2012: UAH 1,208,430 thousand), were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

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

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

	2013	**2012**
Premises at revalued amount in the statement of financial position	1,051,141	1,072,667
Revaluation reserve presented in equity, net of tax	(592,189)	(604,952)
Deferred tax liability on revaluation of premises	(9,560)	(10,496)
Premises at cost less accumulated depreciation and impairment	**449,392**	**457,219**
Works of art at revalued amount in the statement of financial position	9,108	9,108
Revaluation reserve presented in equity, net of tax	(5,282)	(5,282)
Deferred tax liability on revaluation of works of art	(1,006)	(1,006)
Works of art at cost less accumulated depreciation and impairment	**2,820**	**2,820**
Total	**452,212**	**460,039**

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

Changes in value of investment property were as follows:

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

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

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

(in thousands of Ukrainian hryvnias)

12. Other assets

	2013	2012
Financial assets		
Settlements on card operations	108,158	65,961
Derivative financial assets (Note 21)	86,074	8,789
Purchase of foreign currency	26,979	10,950
Other financial assets	10,870	4,464
Allowance for impairment	(3,562)	(3,007)
Total financial assets	**228,519**	**87,157**
Non-financial assets		
Repossessed real estate	222,639	99,735
Precious metals	26,606	47,362
Prepayments for property and equipment and intangible assets	2,837	24,151
Other	23,681	28,930
Allowance for impairment	(674)	(362)
Total non-financial assets	**275,089**	**199,816**
Total other assets	**503,608**	**286,973**

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

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

	2013	2012
Allowance for impairment as at 1 January	**3,007**	**10,132**
Impairment loss / (decrease of impairment) for the year (Note 27)	2,812	1,927
Assets written off during the year as uncollectible	(2,257)	(9,052)
Allowance for impairment as at 31 December	**3,562**	**3,007**

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

	2013 рік	2012 рік
Allowance for impairment as at 1 January	**362**	**792**
Impairment loss / (decrease of impairment) for the year (Note 27)	312	(430)
Allowance for impairment as at 31 December	**674**	**362**

(in thousands of Ukrainian hryvnias)

13. Due to the National Bank of Ukraine

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

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

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

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

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

14. Due to other banks

	2013	**2012**
Current accounts of other banks		
- Domestic	459,568	789,756
- Non-OECD countries	221	428
Total current accounts of other banks	**459,789**	**790,184**
Term deposits of other banks		
- Domestic	873,892	381,854
Total term deposits of other banks	**873,892**	**381,854**
"Repo" agreements with other banks		
- Domestic	57,310	-
Total "repo" agreements with other banks	**57,310**	**-**
Total amounts due to other banks	**1,390,991**	**1,172,038**

As at 31 December 2013, placements of 10 largest banks of UAH 1,071,220 thousand made 77% of total amounts due from other banks (2012: UAH 951,449 thousand, 81%).

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

(in thousands of Ukrainian hryvnias)

15. Customer accounts

	2013	2012
Legal entities		
- Current accounts	6,438,069	4,699,932
- Term deposits	3,260,333	2,680,157
Individuals		
- Current accounts	2,024,195	1,780,377
- Term deposits	9,209,714	8,450,487
Total customer accounts	**20,932,311**	**17,610,953**

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

As at 31 December 2013, included in customer accounts were deposits of UAH 640,582 thousand (2012: UAH 449,891 thousand) held as part of collateral for loans to customers with a carrying amount of UAH 558,252 thousand (2012: UAH 554,378 thousand) (Note 9) and credit related commitments with a carrying amount of UAH 196,533 thousand (2012: UAH 57,382 thousand). In addition, UAH 586,675 thousand (2012: UAH 49,703 thousand) held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 31).

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

Economic sector concentrations within customer accounts are as follows:

	2013	2012
Individuals	11,233,909	10,230,864
Trade and agency services	2,173,444	1,434,943
Transport and infrastructure	886,419	1,329,444
Metallurgy	1,028,532	1,155,763
Property development	592,284	321,622
Machine building	576,763	1,018,180
Mining and energy	1,622,330	378,509
Non-banking financial institutions	367,966	318,441
Food industry and agriculture	276,657	179,707
Chemical	162,990	156,367
Woodworking	60,940	51,875
Other	1,950,077	1,035,238
Total customer accounts	**20,932,311**	**17,610,953**

16. Eurobonds issued

In February and May 2007, the Bank obtained a loan amounting to USD 275,000 thousand from Standard Bank Plc being UAH 1,388,750 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 restructuring of the Bank's borrowings, the loan was replaced by the loan with interest rate of 11% p.a. and the final maturity term in December 2014. During 2010, the Bank repaid part of the loan in the amount of USD 22,512 thousand being UAH 179,828 thousand in the equivalent as at repayment date. As at 31 December 2013, the carrying amount of this loan was UAH 1,989,283 thousand (2012: UAH 1.972,640 thousand).

(in thousands of Ukrainian hryvnias)

17. Bonds issued

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

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

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

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

	2013		**2012**	
	Nominal value	Carrying value	Nominal value	Carrying value
Series B bonds issued	105	109	105	108
Total bonds issued	**105**	**109**	**105**	**108**

18. Other borrowed funds

	2013	**2012**
DF Deutsche Forfait s.r.o.	40,961	-
Landesbank Berlin AG	34,031	49,605
Deutsche Bank	9,757	27,968
HSBC Bank Plc	-	-
Other loans	6,190	17,064
Total other borrowed funds	**90,939**	**94,637**

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

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

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

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

(in thousands of Ukrainian hryvnias)

19. Other liabilities

	2013	2012
Financial liabilities		
Payable under operations with plastic cards	58,846	11,880
Derivative financial liabilities (Note 21)	48,564	1,856
Deferred income on credit lines	26,797	-
Amounts in the course of settlements	7,906	3,824
Provision for credit related commitments (Note 31)	2,488	5,160
Other financial liabilities	6,853	4,964
Total financial liabilities	**151,454**	**27,684**
Non-financial liabilities		
Amounts payable to employees	87,395	56,003
Other taxes payable	25,754	19,520
Cost of software payable under licensing agreements	2,097	4,106
Other accruals and deferred income	4,643	3,050
Total non-financial liabilities	**119,889**	**82,679**
Total other liabilities	**271,343**	**110,363**

20. Subordinated debt

As at 31 December 2013 the Bank had three loans attracted under subordinated loan terms.

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

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

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

(in thousands of Ukrainian hryvnias)

21. 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 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 on 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 on 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 on 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)**

(in thousands of Ukrainian hryvnias)

21. Derivative financial instruments (Continued)

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

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

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

22. Share capital

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

	Number of shares	Nominal amount	Inflation-adjusted amount
At 31 December 2012	**14,323,880**	**3,294,492**	**3,427,350**
At 31 December 2013	**14,323,880**	**3,294,492**	**3,427,350**

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

(in thousands of Ukrainian hryvnias)

23. Segment analysis

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

2013	**Retail banking (VIP and wealth clients)**	**Corporate banking**	**Retail banking (mass segment)**	**Distressed assets management**	**Investment banking and unallocated**	**Total**
Segment assets	**1,628,210**	**14,852,381**	**2,951,966**	**2,622,497**	**9,840,700**	**31,895,754**
including						
Loans to customers, net	1,628,210	14,852,381	2,152,148	2,309,426	-	20,942,165
- loans to customers, gross	1,708,681	14,912,051	2,366,536	4,639,162	-	23,626,430
- allowance	(80,471)	(59,670)	(214,388)	(2,329,736)	-	(2,684,265)
Other financial statements items	-	-	799,818	313,071	9,840,700	10,953,589
Segment liabilities	**11,164,359**	**9,698,402**	**117,729**	**-**	**5,373,188**	**26,353,678**
including						
Customer accounts	11,164,359	9,698,402	69,550	-	-	20,932,311
Other financial statements items	-	-	48,179	-	5,373,188	5,421,367

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

2013	**Retail banking (VIP and wealth clients)**	**Corporate banking**	**Retail banking (mass segment)**	**Distressed assets manageme nt**	**Investment banking and unallocate d**	**Total**
Interest income	403,634	1,698,290	615,150	195,461	457,509	3,370,044
Interest expense	(964,007)	(463,472)	-	-	(408,671)	(1,836,150)
Transfers	1,061,905	(557,494)	(332,999)	(472,945)	301,533	-
Net interest income	**501,532**	**677,324**	**282,151**	**(277,484)**	**350,371**	**1,533,894**
Net fee and commission income	201,766	176,985	(13,311)	-	126,394	491,834
Trading income	8,110	-	-	-	9,236	17,346
Operating expenses and other income/expenses	(517,137)	(315,010)	64,579	(31,539)	(86,064)	(885,171)
Allowances	(64,173)	(18,056)	(200,077)	(245,993)	11,301	(516,998)
Segment result	**130,098**	**521,243**	**133,342**	**(555,016)**	**411,238**	**640,905**
Income taxes	-	-	(21,838)	-	(109,322)	(131,160)
Profit/(loss) for the year	**130,098**	**521,243**	**111,504**	**(555,016)**	**301,916**	**509,745**

(in thousands of Ukrainian hryvnias)

23. Segment analysis (Continued)

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

2012	Retail banking (VIP and wealth clients)	Corporate banking	Retail banking (mass segment)	Distressed assets management	Investment banking and unallocated	Total
Segment assets	**1,683,750**	**11,794,550**	**1,537,179**	**3,175,809**	**9,364,060**	**27,555,348**
including						
Loans to customers, net	1,683,750	11,794,550	1,416,207	2,989,295	-	17,883,802
- loans to customers, gross	1,700,854	11,839,339	1,531,241	5,921,378	-	20,992,812
- allowance	(17,104)	(44,789)	(115,034)	(2,932,083)	-	(3,109,010)
Other financial statements items	-	-	120,972	186,514	9,364,060	9,671,546
Segment liabilities	**10,158,470**	**7,423,729**	**29,499**	**-**	**4,898,326**	**22,510,024**
including						
Customer accounts	10,158,470	7,423,729	28,754	-	-	17,610,953
Other financial statements items	-	-	745	-	4,898,326	4,899,071

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

2012	Retail banking (VIP and wealth clients)	Corporate banking	Retail banking (mass segment)	Distressed assets management	Investment banking and unallocated	Total
Interest income	254,306	1,530,367	317,440	288,666	358,654	2,749,433
Interest expense	(698,051)	(438,397)	3,633	-	(465,422)	(1,598,237)
Transfers	772,203	(617,183)	(166,892)	(429,703)	441,575	-
Net interest income	**328,458**	**474,787**	**154,181**	**(141,037)**	**334,807**	**1,151,196**
Net fee and commission income	129,279	127,496	(9,918)	-	60,686	307,543
Trading income	9,453	599	-	-	23,905	33,957
Operating expenses and other income/expenses	(459,996)	(290,748)	7,599	(35,833)	(28,060)	(807,038)
Allowances	(68,253)	(42,189)	(95,688)	-	(79,480)	(285,610)
Segment result	**(61,059)**	**269,945**	**56,174**	**(176,870)**	**311,858**	**400,048**
Income taxes	-	-	-	-	(136,127)	(136,127)
Profit/(loss) for the year	**(61,059)**	**269,945**	**56,174**	**(176,870)**	**175,731**	**263,921**

(in thousands of Ukrainian hryvnias)

23. Segment analysis (Continued)

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

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

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

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

24. Interest income and expense

	2013	2012
Interest income		
Loans to customers		
- legal entities	1,868,156	1,736,533
- individuals	1,023,801	662,667
Securities	367,992	311,079
Due from other banks	110,095	39,154
Total interest income	**3,370,044**	**2,749,433**
Interest expense		
Individuals		
- term deposits	(955,096)	(680,201)
- current accounts	(8,911)	(17,500)
Legal entities		
- term deposits	(247,068)	(275,809)
- current accounts	(215,126)	(159,159)
Eurobonds issued	(221,995)	(239,291)
Loans from the NBU	(80,228)	(97,351)
Subordinated debt	(53,315)	(71,710)
Due to other banks	(29,664)	(36,886)
Other borrowed funds	(24,630)	(20,316)
Bonds issued by the Bank	(117)	(14)
Total interest expense	**(1,836,150)**	**(1,598,237)**
Net interest income	**1,533,894**	**1,151,196**

(in thousands of Ukrainian hryvnias)

25. Fee and commission income and expense

	2013	2012
Payment cards	382,257	292,661
Servicing loans, including under cooperation agreements	121,446	14,629
Conversion operations	88,596	67,981
Settlement transactions with customers	77,539	56,731
Documentary operations	66,273	38,738
Cash deposits and withdrawals	24,188	21,104
Fiduciary activities	1,215	1,081
Other	3,184	2,680
Fee and commission income	**764,698**	**495,605**
Payment cards	(218,103)	(155,210)
Purchase and collection of cash	(17,245)	(9,758)
Servicing loans	(23,960)	(9,908)
Settlement transactions	(9,080)	(8,447)
Documentary operations	(2,891)	(1,008)
Fiduciary activities	(943)	(474)
Other	(642)	(3,257)
Fee and commission expense	**(272,864)**	**(188,062)**
Net fee and commission income	**491,834**	**307,543**

26. Other income

	2013	2012
Penalties received	23,316	9,378
Other rental income	11,042	8,294
Rental income from investment properties (Note 11)	8,414	5,825
Income from disposal of property and equipment	4,040	-
Gain from sale of precious metals	1,354	2,548
Other income	7,946	3,824
Total other income	**56,112**	**29,869**

(in thousands of Ukrainian hryvnias)

27. Operating expenses

	2013	2012
Salary, employee benefits and compulsory contributions to State funds	522,662	479,789
Depreciation and amortisation (Note 11)	104,680	106,402
Contributions to Individuals Deposits Guarantee Fund	82,302	50,370
Maintenance of premises and equipment	71,677	65,956
Lease of premises	40,809	37,709
Communication	30,113	19,408
Advertising, entertainment expenses	27,658	50,831
Audit, legal, consulting services	19,322	38,103
State duties and taxes, other than on income	17,154	16,247
Security services	10,066	9,266
Losses from loans sale	-	8,664
Staff training	4,204	3,252
Provision/ (reversal of provision) for impairment of other assets (Note 12)	3,124	1,497
Charitable contributions	764	832
Other	58,381	57,732
Total operating expenses	**992,916**	**946,058**

Included in salary, employee benefits and compulsory contributions to State funds is the unified social tax in the amount of UAH 104,388 thousand (2012: UAH 97,978 thousand). In accordance with the Ukrainian legislation, the unified social tax is implemented, with further allocation of contributions between the respective state social funds. Pension contributions are made to the State Pension Fund which is a defined contribution plan. The contribution to the State Pension Fund comprises 90.2174% of the unified social tax, amounting to UAH 94,176 thousand in 2013 (2012: UAH 88,393 thousand).

28. Income taxes

Income tax expense was comprised of the following:

	2013	2012
Current tax charge	46,916	58,017
Deferred tax expense	84,244	78,110
Income tax expense for the year	**131,160**	**136,127**

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

	2013	2012
Profit before income tax expense	**640,905**	**400,048**
Theoretical tax charge at the applicable statutory rate	121,772	84,010
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	532	7,865
- Non-deductible expenses	6,762	14,659
- Expense assessable for tax purposes only	-	(3,149)
- Correction of the income assessable for tax purposes in the previous periods	(7,755)	-
- Exchange rate differences on recognition of current and deferred income tax	-	(8)
- Other non-temporary differences	1,256	15,637
- Change in income tax amount for income tax rate applicable in future	8,593	17,113
Income tax expense for the year	**131,160**	**136,127**

(in thousands of Ukrainian hryvnias)

28. Income taxes (Continued)

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

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

	31 December 2012	**Credited/ (charged) to other comprehensive income**	**Credited/ (charged) to statement of income**	**31 December 2013**
Tax effect of deductible and taxable temporary differences				
Allowances for loan impairment and credit related commitments	(194,889)	-	(85,577)	**(280,466)**
Investment securities available for sale	12,571	1,443	14,178	**28,192**
Property and equipment and investment property	(22,810)	-	(6,913)	**(29,723)**
Accrued interest and commission income	139,235	-	(11,397)	**127,838**
Accrued interest and commission expense	(6,442)	-	2,862	**(3,580)**
Other	10,534	-	7,367	**17,901**
Estimated net deferred tax liability	**(61,801)**	**1,443**	**(79,480)**	**(139,838)**
Tax losses carry forward	15,201	-	(4,764)	**10,437**
Net deferred tax asset/ (liability)	**(46,600)**	**1,443**	**(84,244)**	**(129,401)**

	31 December 2011	**Credited/ (charged) to other comprehensive income**	**Credited/ (charged) to statement of income**	**31 December 2012**
Tax effect of deductible and taxable temporary differences				
Allowances for loan impairment and credit related commitments	(209,932)	-	15,043	**(194,889)**
Investment securities available for sale	88,929	12,565	(88,923)	**12,571**
Property and equipment and investment property	(25,653)	(1,010)	3,853	**(22,810)**
Accrued interest and commission income	143,855	-	(4,620)	**139,235**
Accrued interest and commission expense	(11,581)	-	5,139	**(6,442)**
Subordinated debt	(1,277)	-	1,277	**-**
Other	10,199	-	335	**10,534**
Estimated net deferred tax liability	**(5,460)**	**11,555**	**(67,896)**	**(61,801)**
Tax loss carry forward	25,415	-	(10,214)	**15,201**
Net deferred tax asset / (liability)	**19,955**	**11,555**	**(78,110)**	**(46,600)**

29. Risk management

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

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

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

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

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

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

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

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

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

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

29. Risk management (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

29. Risk management (Continued)

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

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

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

The maximum exposure to credit risk for the components of the 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.

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

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

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

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

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

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

(in thousands of Ukrainian hryvnias)

29. Risk management (Continued)

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

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	2013, %	2012, %
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	39.85	45.01
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	64.3	70.20
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%)	80.8	84.34

Analysis of financial liabilities, grouped on term base by remaining contractual maturities
The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank 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 2013	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 mont hs	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	1,020,451	372,200	-	-	-	**1,392,651**
Derivative financial instruments:	46,228	1,832	504	-	-	**48,564**
Customer accounts	10 824 098	2,153,651	4,038,178	3,865,655	491,282	**21,372,864**
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	75,635	8,288	5,963	6,653	6,351	**102,890**
Subordinated debt	8,933	8,933	13,400	284,482	237,178	**552,926**
Total undiscounted financial liabilities	**11,988,699**	**2,920,724**	**4,146,355**	**6,364,266**	**1,646,294**	**27,066,338**

(in thousands of Ukrainian hryvnias)

29. Risk management (Continued)

At 31 December 2012	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	8,045	16,089	24,134	48,267	1,305,756	**1,402,291**
Due to other banks	1,101,488	1,479	5,413	4,438	74,195	**1,187,013**
Derivative financial instruments:	1,856	-	-	-	-	**1,856**
Customer accounts	8,905,708	2,396,532	2,375,375	3,931,626	682,559	**18,291,800**
Eurobonds issued	18,500	36,999	55,499	110,998	2,240,132	**2,462,128**
Bonds issued	-	-	7	7	105	**119**
Other borrowed funds	407	271	5,071	5,516	84,826	**96,091**
Other financial liabilities	25,828	-	-	-	-	**25,828**
Subordinated debt	4,223	8,874	13,311	26,622	549,256	**602,286**
Total undiscounted financial liabilities	**10,066,055**	**2,460,244**	**2,478,810**	**4,127,474**	**4,936,829**	**24,069,412**

The table below shows the contractual expiry of the Bank's financial commitments and contingencies, as expected in appropriate agreement:

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

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 Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

(in thousands of Ukrainian hryvnias)

29. Risk management (Continued)

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

	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	1,319,650	-	-	-	-	**1,319,650**
Balance with the National Bank of Ukraine	1,452,545	-	-	-	-	**1,452,545**
Due from other banks	2,191,003	370,473	184,464	4,514	14,609	**2,765,063**
Loans to customers	1,600,504	3,013,170	2,439,301	7,461,814	6,427,376	**20,942,165**
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	217,270	11,249	-	-	-	**228,519**
Total financial assets	**7,866,895**	**3,622,210**	**2,652,237**	**8,085,740**	**7,672,807**	**29,899,889**
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	1,020,394	370,597	-	-	-	**1,390,991**
Customer accounts	10,853,181	2,063,394	3,884,800	3,678,703	452,233	**20,932,311**
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	4,466	-	-	262,328	219,591	**486,385**
Other financial liabilities	125,495	6,488	6,467	6,653	6,351	**151,454**
Total financial liabilities	**12,031,209**	**2,793,064**	**3,970,569**	**6,104,947**	**1,204,599**	**26,104,388**
Liquidity gap arising from financial instruments	**(4,164,314)**	**829,146**	**(1,318,332)**	**1,980,793**	**6,468,208**	**3,795,501**

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.

(in thousands of Ukrainian hryvnias)

29. Risk management (Continued)

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

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 month s	Total
Assets						
Cash on hand and in transit	702,912	-	-	-	-	**702,912**
Balance with the National Bank of Ukraine	1,485,260	-	-	-	-	**1,485,260**
Due from other banks	2,125,137	184,188	72,357	649	22,347	**2,404,678**
Loans to customers	2,013,738	3,385,314	1,446,087	4 052 822	6,985,841	**17,883,802**
Investment securities in the trading portfolio	-	-	-	373 793	-	**373,793**
Investment securities available for sale	1,519	820,923	433,116	402 947	1,365,175	**3,023,680**
Other financial assets	87,157	-	-	-	-	**87,157**
Total financial assets	**6,415,723**	**4,390,425**	**1,951,560**	**4 830 211**	**8,373,363**	**25,961,282**
Liabilities						
Due to the National Bank of Ukraine	-	-	-	-	1,016,153	**1,016,153**
Due to other banks	1,100,563	-	3,194	-	68,281	**1,172,038**
Customer accounts	8,716,558	1,190,434	1,204,802	5 338 941	1,160,218	**17,610,953**
Eurobonds issued	-	-	-	-	1,972,640	**1,972,640**
Bonds issued	-	-	3	-	105	**108**
Other borrowed funds	348	165	4,728	4 643	84,753	**94,637**
Subordinated debt	4,223	-	-	-	482,309	**486,532**
Other financial liabilities	27,684	-	-	-	-	**27,684**
Total financial liabilities	**9,849,376**	**1,190,599**	**1,212,727**	**5 343 584**	**4,784,459**	**22,380,745**
Liquidity gap arising from financial instruments	**(3,433,653)**	**3,199,826**	**738,833**	**(513 373)**	**3,588,904**	**3,580,537**

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

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

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

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

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

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

29. Risk management (Continued)

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

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

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

The Bank assess interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 100 bpp in major currencies (UAH, USD, EUR). As at 31 December 2013 the Bank is exposed to interest rate risk, whose realization may impact net interest income within 1-year horizon – a possible decrease by UAH 59,788 thousand (2012 – decrease by UAH 37,567 thousand).

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

Currency risk

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

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

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

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

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

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

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

(in thousands of Ukrainian hryvnias)

29. Risk management (Continued)

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

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

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

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

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

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

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

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

Operational risk

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

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

Index	**2013**	**2012**
Operational risk appetite	6,994	7,993

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

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

(in thousands of Ukrainian hryvnias)

30. Fair value measurements

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

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

	2013			2012		
	Carrying value	**Fair value**	**Unrecog-nized gain/(loss)**	**Carrying value**	**Fair value**	**Unrecog-nized gain/(loss)**
Financial assets						
Cash on hand	1,319,650	1,319,650	-	702,912	702,912	-
Balance with the National Bank of Ukraine	1,452,545	1,452,545	-	1,485,260	1,485,260	-
Due from other banks						
- Current accounts and overnight deposits	2,090,765	2,090,765	-	2,108,380	2,108,380	-
- Term deposits with other banks	674,298	674,298	-	296,298	296,298	-
Loans to customers						
- Corporate loans	16,322,932	15,648,469	(674,463)	13,718,976	12,379,080	(1,339,896)
- Mortgage loans	1,340,405	1,212,822	(127,583)	1,799,140	1,592,714	(206,426)
- Car loans	372,137	378,008	5,871	468,098	438,005	(30,093)
- Consumer loans	2,753,273	2,753,273	-	1,853,496	1,853,496	-
- Other loans (overdrafts)	153,418	153,418	-	44,092	44,092	-
Financial liabilities						
Due to the National Bank of Ukraine	1,062,916	1,062,916	-	1,016,153	1,016,153	-
Due to other banks						
- Current accounts of other banks	459,789	459,789	-	790,184	790,184	-
- Term deposits with other banks	873,892	873,892	-	381,854	381,854	-
- Repo agreements with other banks	57,310	57,310	-	-	-	-
Customer accounts						
- legal entities	9,698,402	9,635,745	62,657	7,380,089	7,364,535	15,554
- individuals	11,233,909	10,890,403	254,948	10,230,864	9,954,452	276,412
Eurobonds issued	1,989,283	1,972,729	16,554	1,972,640	2,041,386	(68,746)
Bonds issued	109	112	(3)	108	105	3
Other borrowed funds	90,939	90,939	-	94,637	94,637	-
Subordinated debt	486,385	494,521	(8,136)	486,532	486,680	(148)
Total unrecognized change in unrealized fair value			**(470,155)**			**(1,353,340)**

30. Fair value measurements (Continued)

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

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

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank 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.

(in thousands of Ukrainian hryvnias)

30. Fair value measurements (Continued)

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

31 December 2013	Date of valuation	Fair value measurement using Level 1	Level 2	Level 3	Total
Assets measured at fair value					
State bonds	31 December 2013	-	2,697,970	-	**2,697,970**
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	-	-	1,319,650	**1,319,650**
Balance with the National Bank of Ukraine	31 December 2013	-	-	1,452,545	**1,452,545**
Due from other banks	31 December 2013	-	-	2,765,063	**2,765,063**
Loans to customers	31 December 2013	-	-	20,942,165	**20,942,165**
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	-	-	1,390,991	**1,390,991**
Customer accounts	31 December 2013	-	-	20,932,311	**20,932,311**
Eurobonds issued	31 December 2013	-	-	1,989,283	**1,989,283**
Bonds issued	31 December 2013	-	-	109	**109**
Other borrowed funds	31 December 2013	-	-	90,939	**90,939**
Subordinated debt	31 December 2013	-	-	486,385	**486,385**

(in thousands of Ukrainian hryvnias)

30. Fair value measurements (Continued)

31 December 2012	Date of valuation	Fair value measurement using Level 1	**Level 2**	**Level 3**	Total
Assets measured at fair value					
State bonds	31 December 2012	3,249,091	-	-	**3,249,091**
Corporate bonds	31 December 2012	-	141,325	-	**141,325**
Forward currency contracts	31 December 2012	-	8,789	-	**8,789**
Property and equipment – premises	1 December 2011	-	-	1,072,667	**1,072,667**
Works of art	31 December 2012	-	-	9,108	**9,108**
Investment property	1 December 2011	-	-	81,648	**81,648**
Assets for which fair values are disclosed					
Cash on hand and in transit	31 December 2012	-	-	702,912	**702,912**
Balance with the National Bank of Ukraine	31 December 2012	-	-	1,485,260	**1,485,260**
Due from other banks	31 December 2012	-	-	2,404,678	**2,404,678**
Loans to customers	31 December 2012	-	-	17,883,802	**17,883,802**
Shares	31 December 2012	-	-	7,057	**7,057**
Liabilities measured at fair value					
Forward currency contracts	31 December 2012	-	(1,714)	-	**(1,714)**
Currency swap contracts	31 December 2012	-	(142)	-	**(142)**
Liabilities for which fair values are disclosed					
Due to the National Bank of Ukraine	31 December 2012	-	-	1,016,153	**1,016,153**
Due to other banks	31 December 2012	-	-	1,172,038	**1,172,038**
Customer accounts	31 December 2012	-	-	17,610,953	**17,610,953**
Eurobonds issued	31 December 2012	-	-	1,972,640	**1,972,640**
Bonds issued	31 December 2012	-	-	108	**108**
Other borrowed funds	31 December 2012	-	-	94,637	**94,637**
Subordinated debt	31 December 2012	-	-	486,532	**486,532**

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 Bank'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.

30. Fair value measurements (Continued)

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

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

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

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

31. Contingencies and commitments

Legal
The Bank 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 Bank'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 Bank believes that its interpretation of the relevant legislation is appropriate, and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

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

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

Compliance with covenants
The Bank 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 Bank including the growth in the cost of borrowings and declaration of default. In particular, the Bank 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 Bank 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 Bank was in compliance with all covenants as at 31 December 2013 and 31 December 2012.

(in thousands of Ukrainian hryvnias)

31. Contingencies and commitments (Continued)

Credit related commitments

The guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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 Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of the customers authorising third parties to draw drafts on the Bank 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 Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to the deterioration of the customer's solvency.

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

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

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

The guarantees issued are as follows:

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

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

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

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2013 was UAH 4,805,045 thousand (2012: UAH 1,717,728 thousand). The management considers the commitments to extend credit as revocable due to the fact that the Bank 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.

(in thousands of Ukrainian hryvnias)

31. Contingencies and commitments (Continued)

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

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

Operating lease commitments

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

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

(in thousands of Ukrainian hryvnias)

32. Pledged financial assets

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

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

Securities disclosed in the table above - assets pledged under repo agreements with other banks and loans received from the National Bank of Ukraine for liquidity maintenance as at 31 December 2013.
Loans to customers – assets, property rights on which were transferred by the Bank as a collateral under loans received from the National Bank of Ukraine for liquidity maintenance as at 31 December 2013.
Bank considers that it still takes all risks and awards in respect of these assets, including credit, market and operational risks, and country risk, accordingly did not derecognized these assets.

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

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

(in thousands of Ukrainian hryvnias)

33. Related party transactions

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

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

As at and for the year ended 31 December 2013	**Parent company**	**Entities under common control**	**Subsidia-ries**	**Management**	**Other related parties**
Assets					
Due from other banks (interest rate, % p.a.)	-	-	764,516 (11)	-	-
Loans to customers (interest rate, % p.a.)	-	705,260(10.58)	-	192(12.55)	-
Allowance for loan impairment	-	(2,024)	-	-	-
Investments in subsidiaries	-	-	295,051	-	-
Other assets	5	893	1,474	-	-
Liabilities					
Due to other banks (interest rate, % p.a.)	-	-	(58,052)	-	-
Customer accounts (interest rate, % p.a.)	(262,293)	(4,202,421) (12.42)	-	(19,515) (11.95)	(19,803) (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	20,874	80	1
Interest expense	(2,993)	(159,759)	-	(1,349)	(341)
Fee and commission income	1	348,629	14,729	40	193
Fee and commission expense	-	(7,399)	(15,046)	-	-
Other income	-	289	-	-	-
Allowance for loan impairment	-	1,540	-	-	-
Operating expenses	-	(6,068)	-	(127)	-

(in thousands of Ukrainian hryvnias)

33. Related party transactions (Continued)

As at and for the year ended 31 December 2012	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a.)	-	873,843(11.7)	200(14.0)	-
Allowance for loan impairment	-	(1,247)	-	-
Investment securities available for sale	-	23,851(18.0)	-	-
Due from other banks (interest rate, % p.a.)	-	296,085(11.9)	-	-
Other assets	-	2,230	-	-
Liabilities				
Due to other banks (interest rate, % p.a.)	-	(12,317)	-	-
Customer accounts (interest rate, % p.a.)	(56)	(3,622,963) (1.4)	(10,958)(10.4)	(60,771)(9.5)
Other liabilities	-	(192)	-	-
Credit related commitments				
Revocable commitments to extend credit	-	33,970	-	-
Irrevocable commitments to extend credit	-	-	176	-
Guarantees	-	38,342	-	-
Letters of credit	-	3,829	-	-
Income / expense				
Interest income	-	122,463	56	-
Interest expense	-	(158,902)	(455)	(463)
Fee and commission income	8	28,719	-	-
Fee and commission expense	-	(9,917)	-	-
Other income	-	168	440	-
Allowance for loan impairment	-	5,937	-	-
Operating expense	-	(2,214)	-	-

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

(in thousands of Ukrainian hryvnias)

33. Related party transactions (Continued)

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)	(32)	(2)
Other change	-	(91,600)	24	-

During the year, 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	-	1,490,960	1,542	767
Amounts repaid by related parties during the year	-	(1,747,577)	(1,486)	(759)
Other change	-	432,263	(519)	(3,420)

In 2012, the remuneration of the members of the Management Board comprised salaries of UAH 33,818 thousand (2011: UAH 38,731 thousand), compulsory contributions to the State funds of UAH 767 thousand (2011: UAH 693 thousand). In 2012, the remuneration to the members of the Supervisory Board was UAH 24 thousand (2011: UAH 40 thousand).

34. Earnings per share

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

	2013	2012
Profit for the year	509,745	263,921
Weighted average number of ordinary shares outstanding during the period	14,323,880	14,323,880
Earnings per share, basic (in hryvnia per share)	**35.59**	**18.43**

(in thousands of Ukrainian hryvnias)

35. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank'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 Bank. The bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 4,701,800 thousand as at 31 December 2013 (2012: UAH 4,268,501 thousand).

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

The Bank 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 Bank may adjust the amounts of dividend payments to the shareholders, return the capital to the shareholders or issue capital securities. No changes were made in the objectives, policies and processes since the previous years.

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

	2013	**2012**
Main capital	2,880,756	2,911,986
Additional capital	1,821,044	1,356,515
Withdrawals	(300,786)	-
Excess of N9 prudential ratio	(560,698)	-
Total equity	**3,840,316**	**4,268,501**
Risk-weighted assets	**32,595,178**	**24,212,631**
Capital adequacy ratio	**11.78%**	**17.63%**

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

(in thousands of Ukrainian hryvnias)

35. Capital (Continued)

The Bank 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 Bank complied with this loan covenant. As at 31 December 2013 and 31 December 2012, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements is as follows:

	2013	**2012**
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	1,456,201	933,693
Total tier 1 capital	**4,974,615**	**4,452,107**
Tier 2 capital		
Asset revaluation reserves	567,461	593,217
Eligible subordinated debt	141,539	238,928
Total tier 2 capital	**709,000**	**832,145**
Total equity	**5,683,615**	**5,284,252**
Capital adequacy ratio at 31 December		
Risk-weighted assets	26,765,937	22,556,126
Total equity	5,683,614	5,284,252
Capital adequacy ratio (%)	**21.23%**	**23.43%**

36. Subsequent events

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

Signed on behalf of the Management Board on 24 March 2014

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

I.O. Kozhevin (Chief Financial Officer)

O. M. Moshkalova (Chief Accountant)