JSCB INDUSTRIALBANK

Financial Statements

Year ended 31 December 2013
Together with Independent Auditors' Report

Translation from Ukrainian original

Contents

Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ua

ТОВ «Ернст енд Янг
Аудиторські послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

Independent Auditors' Report (Audit Opinion)

To the Shareholders and the Management Board of PUBLIC JOINT-STOCK COMPANY JOINT-STOCK COMMERCIAL BANK "INDUSTRIALBANK"

Report on the Financial Statements

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY JOINT-STOCK COMMERCIAL BANK "INDUSTRIALBANK" ("the Bank") (code ERDPU – 13857564; actual address – 39-d, 40 Rokiv Radianskoyi Ukrayiny St., Zaporizhya; date of state registration – 16 October 1991), which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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.

Auditors' 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 auditors' 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 auditors consider 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 in Ukraine that started in November 2013 and escalated in 2014. 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.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Resolution No. 1360 of the State Commission on Securities and Stock Market of Ukraine "On approval of Requirements to an auditor's report on information disclosed by issuers of securities (except municipal bonds)" dated 29 September 2011, we report the following:

1) Section 3 of Article 155 of the Civil Code of Ukraine requires a joint stock company to announce reduction of its share capital and make appropriate changes to its charter documents in accordance with the effective legislation, if its net assets as at the end of the second annual reporting period (from the inception) and all subsequent reporting periods are lower than its statutory capital. A joint stock company should be dissolved, if its net assets are lower than the minimum share capital required by the effective legislation. The Bank's net assets as at 31 December 2013 are UAH 808,352 thousand, which is greater than its registered statutory capital.

2) We have read the other information disclosed by the Bank in its annual report of the issuer of securities, which includes, but is not limited to the accompanying financial statements. We have not noted any material inconsistencies between the accompanying financial statements and the unaudited annual report of the issuer of securities.

3) The Law of Ukraine "On Joint Stock Companies" ("the Law") requires certain approvals to be obtained prior to executing significant transactions by a joint stock company with a market value of such assets (works, services) more than 10% of an entity's total assets as at the end of the latest annual reporting period. Our audit of the financial statements involved performing procedures to obtain audit evidence on a test basis about the amounts and disclosures in the financial statements, but was not designed to express an opinion on the compliance of all significant transactions (as defined by the Law) with the requirements of the Law. Accordingly, we do not express such an opinion.

4) The Law requires joint stock companies developing a code (principles) of corporate governance, and requires establishing a supervisory committee and an audit committee. The Bank has developed the code of corporate governance, and has established the Supervisory Board as per decision of the general meeting of founders and shareholders dated 12 September 1990 and the internal audit division as per decision of the Supervisory Board dated 6 February 2006. No clear criteria for standards of corporate governance are established by the Law or other regulations. Accordingly, we do not express an opinion as to the effectiveness of the Company's corporate governance.

5) In the course of our audit of the financial statements, we have assessed the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Bank'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 Bank's internal control, including controls designed to prevent and detect fraud. Accordingly, we do not express such an opinion.

Other Matters – Contractual arrangements and timing of the audit

We have been engaged by the Bank to perform audit of financial statements for the year ended 31 December 2013 and concluded an agreement No. GFS-2013-00243 dated 30 September 2013. Our audit of the financial statements of the Bank has been performed during the period from 9 December 2013 to 9 April 2014.

Svistich O.M.
General Director

Studynska Y.S.
Partner

Auditor's certificate
Series B No. 0131
valid till 24 December 2014

Registered in the NBU banking auditors register
No. 0000111

9 April 2014
Kyiv, Ukraine

STATEMENT OF FINANCIAL POSITION
At 31 December 2013

(Thousands of Ukrainian hryvnias)

	Notes	2013	2012
Assets			
Cash and cash equivalents	7	507,458	584,317
Obligatory reserve with the National Bank of Ukraine		21,565	24,397
Precious metals		12,705	5,659
Amounts due from credit institutions	8	8,143	75,904
Derivative financial assets	9	14,614	-
Loans to customers	10	1,341,107	1,582,892
Available-for-sale securities	12	316,413	353,300
Investments in associates	13	-	8,006
Investment property	14	193,882	157,537
Property and equipment	15	167,273	184,671
Intangible assets	16	9,690	9,907
Assets held for sale	11	2,915	7,195
Other assets	20	12,455	6,272
Total assets		2,608,220	3,000,057
Liabilities			
Amounts due to the National Bank of Ukraine	19	13,897	33,509
Amounts due to credit institutions	21	404,561	331,287
Derivative financial liabilities	9	-	4,710
Amounts due to customers	22	1,346,536	1,744,442
Other borrowed funds	23	6,393	5,588
Current income tax liabilities		7,718	692
Deferred tax liabilities	17	3,047	21,605
Provisions for liabilities	18	-	20,355
Other liabilities	20	17,716	16,821
Total liabilities		1,799,868	2,179,009
Equity			
Share capital	24	619,017	619,017
Additional paid-in capital		8,022	8,022
Reserve and other funds		138,890	137,686
Retained earnings		48,511	56,123
Revaluation reserve		(6,088)	200
Total equity		808,352	821,048
Total equity and liabilities		2,608,220	3,000,057

Signed and authorised for release on behalf of the Management Board of the Bank

L.A. Grebinskyi — Chairman of the Management Board

T.V. Grebeshkova — Chief Accountant

9 April 2014

The accompanying notes on pages 6 to 46 are an integral part of these financial statements.

INCOME STATEMENT

For 2013

(in thousands of Ukrainian hryvnia)

	Notes	2013	2012
Interest income			
Loans to customers		252,598	256,426
Amounts due from credit institutions		40,449	64,000
Available-for-sale securities		32,662	63,370
		325,709	383,796
Interest expense			
Amounts due to customers		(173,342)	(188,948)
Amounts due to the National Bank of Ukraine		(2,444)	(338)
Amounts due to credit institutions		(38,921)	(40,046)
Other borrowed funds		(656)	(741)
		(215,363)	(230,073)
Net interest income		110,346	153,723
Provisions for impairment of financial assets	10, 12	(23,227)	(102,904)
Net interest income after provisions for impairment of financial assets		87,119	50,819
Net fee and commission income	26	18,630	25,111
Net gains / (losses) from derivatives		23,301	(5,891)
Net gains / (losses) from securities available-for-sale - reversal of impairment / (impairment)		-	75,415
Net gains / (losses) from foreign currencies:			
- dealing		(3,892)	3,309
- translation differences		(2,071)	1,264
Other income	27	23,880	31,870
Non-interest income		59,848	131,078
Personnel expenses	28	(89,465)	(94,450)
Depreciation and amortisation	14, 15, 16	(14,918)	(15,273)
Other administrative and operating expenses	28	(70,578)	(74,594)
Reversal of provisions for impairment of other assets and liabilities	18	20,375	1,382
Non-interest expense		(154,586)	(182,935)
Loss before income tax expense		(7,619)	(1,038)
Income tax benefit	17	1,211	25,108
Loss for the year		(6,408)	24,070
(Loss) / earning per share (UAH)	29	(0,03)	0,13

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L.A. Grebinskyi Chairman of the Management Board

T.V. Grebeshkova Chief Accountant

9 April 2014

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STATEMENT OF COMPREHENSIVE INCOME

For 2013

(Thousands of Ukrainian hryvnias)

	Notes	*2013*	*2012*
(Loss) / Profit for the year		(6,408)	24,070
Other comprehensive income (loss) / income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealized (losses) / gains on investment securities available-for-sale		(7,074)	200
Effect on income tax		786	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(6,288)	200
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Income tax effect, related to other comprehensive income	17	-	3,230
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	3,230
Other comprehensive (loss) / income for the year, net of tax		(6,288)	3,430
Total comprehensive (loss) / income for the year		(12,696)	27,500

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L.A. Grebinskyi — Chairman of the Management Board

T.V. Grebeshkova — Chief Accountant

9 April 2014

STATEMENT OF CHANGES IN EQUITY

For 2013

(Thousands of Ukrainian hryvnias)

	Share capital	*Additional paid-in capital*	*Revaluation reserve*	*Reserve and other funds*	*Retained earnings*	*Total equity*
31 December 2011	619,017	8,022	-	136,842	29,667	793,548
Profit for the year	-	-	-	-	24,070	24,070
Other comprehensive income for the year	-	-	200	-	3,230	3,430
Total comprehensive income for the year	-	-	200	-	27,300	27,500
Allocation of retained earnings to increase the reserve funds	-	-	-	844	(844)	-
31 December 2012	619,017	8,022	200	137,686	56,123	821,048
Profit for the year	-	-	-	-	(6,408)	(6,408)
Other comprehensive income for the year	-	-	(6,288)	-	-	(6,288)
Total comprehensive income for the year	-	-	(6,288)	-	(6,408)	(12,696)
Allocation of retained earnings to increase the reserve funds	-	-	-	1,204	(1,204)	-
31 December 2013	619,017	8,022	(6,088)	138,890	48,511	808,352

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L.A. Grebinskyi — Chairman of the Management Board

T.V. Grebeshkova — Chief Accountant

9 April 2014

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STATEMENT OF CASH FLOWS

For 2013

(Thousands of Ukrainian hryvnias)

	Notes	*2013*	*2012*
Cash flows from operating activities			
Interest received		326,541	358,869
Interest paid		(212,370)	(228,316)
Fees and commissions received		26,788	37,231
Fees and commissions paid		(8,560)	(10,442)
Realised gains less losses from dealing in foreign currencies		(3,892)	3,309
Other income received		28,078	41,416
Personnel and other administrative and operating expenses paid		(159,584)	(168,292)
Cash flows (used in) / from operating activities before changes in operating assets and liabilities		(2,999)	33,775
Net (increase) / decrease in operating assets			
Mandatory reserve balance with the National Bank of Ukraine		2,813	8,181
Amounts due from credit institutions		67,892	1,361
Loans to customers		196,305	(23,672)
Other assets		(12,417)	18,891
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		(19,615)	33,509
Amounts due to credit institutions		74,173	59,370
Amounts due to customers		(398,125)	(388,047)
Other liabilities		558	2,165
Net cash used in operating activities before income tax		(91,415)	(254,467)
Income tax paid		(9,565)	(10,036)
Net cash used in operating activities		(100,980)	(264,503)
Cash flows from investing activities			
Proceeds from sale and redemption of securities available-for-sale		214,836	532,327
Purchase of securities available-for-sale		(192,681)	(436,054)
Purchase of property and equipment and intangible assets		(7,788)	(11,960)
Proceeds from sale of property and equipment and investment property		3,798	19,443
Net cash from investing activities		18,165	103,756
Cash flows from financing activities			
Proceeds from other borrowed funds		802	3,306
Redemption of other borrowed funds		-	(5,800)
Net cash from / (used in) financing activities		802	(2,494)
Effect of translation differences on cash and cash equivalents		5,154	1,264
Net decrease in cash and cash equivalents		(76,859)	(161,977)
Cash and cash equivalents, 1 January		584,317	746,294
Cash and cash equivalents, 31 December	7	507,458	584,317

Signed and authorised for release on behalf of the Management Board of the Bank

L.A. Grebinskyi Chairman of the Management Board

T.V. Grebeshkova Chief Accountant

9 April 2014

The accompanying notes on pages 6 to 46 are an integral part of these financial statements.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

1. Principal activities

PUBLIC JOINT STOCK COMPANY JOINT STOCK COMMERCIAL BANK "INDUSTRIALBANK" (further - the "Bank") was established as a Joint Stock Bank through the reorganisation of Commercial bank "Spivdruzhnist" which was registered by the State Bank of the USSR under #744 on 6 November 1990 and registered by the National Bank of Ukraine under #36 on 16 October 1991.

The Bank operates under the general banking licence #126 issued by the National Bank of Ukraine (the "NBU") on 12 October 2011. The Bank also possesses the license issued by the State Commission for Securities and Stock Market of Ukraine to perform professional activities in the stock market – securities trading activity: series AB #493339 dated 21 October 2009 (securities management); licenses issued by the National Commission of Securities and Stock Market: series AE #185078 dated 17 October 2012 (brokerage), series AE #185079 dated 17 October 2012 (dealing), series AE #185080 dated 17 October 2012 (underwriting).

The Bank accepts deposits from the public and extends credits, transfers payments in Ukraine and abroad, trades with securities, issues debit and credit cards, exchanges currencies and provides banking services to its commercial and retail customers. Its main office is in Zaporizhya. As at the end of the reporting period, the Bank had 45 outlets (2012 – 51 outlets) throughout Ukraine covering districts and major industrial centres in various regions of Ukraine and the representative office in Kyiv. The Bank's registered address is 39-d, 40 Rokiv Radianskoyi Ukrayiny St., Zaporizhya, Ukraine.

The Bank is a member of the Individuals Deposits Guarantee Fund. The fund is state owned and operates under the Ukrainian laws and regulations. The individuals deposit insurance payment amounts to UAH 200 thousand (2012 – UAH 200 thousand) for each individual in case of the Bank's bankruptcy and revocation of the Bank's banking license.

As at 31 December, the following shareholders owned more than 5% of the outstanding shares.

Акціонери	*2013 ,%*	*2012 ,%*
Insurance company with additional responsibility "Zakhid-Rezerv"	17.2	17.2
Pol Invest Group LLC	9.8	9.4
"AMC "Metropolis" ("Kyiv-Finance" – 23300122) LLC	9.2	-
FINVAL Group LLC	9.1	9.1
«CUVCIF «Ukrainski portfelni investitsii» PJSC	9.0	-
Nolva LLC	7.7	7.7
Ukrtransnafta PJSC	5.0	5.0
Other	33.0	32.8
Soldatenko Mykola	-	11.1
Sauslenk-Zaporizhzhya LLC	-	7.7
Total	100.0	100.0

As at 31 December 2013, the members of the Bank's Supervisory Board and Management Board controlled 14.9% of the Bank's share capital (2012: 25.9%).

There is no ultimate controlling shareholder of the Bank. The Bank is controlled directly and/or indirectly by three individuals.

2. Operating environment in Ukraine

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, fiscal, legal, and economic reforms. As a result, 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-March 2014, the political unrest escalated. In February 2014, the President and majority of Government officials were 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. On 21 March 2014, Ukraine signed a political association with the European Union.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

In March 2014, people in the Autonomous Republic of Crimea voted in a referendum in favour of seceding from Ukraine and becoming a part of the Russian Federation. The Crimean parliament declared the independence. While the referendum and declaration of independence have been ruled unconstitutional by the Ukraine's Constitutional Court, the President of the Russian Federation and the representatives of Crimea signed an agreement on the accession of Crimea to the Russian Federation, which has been ratified by the constitutional court and the Parliament of the Russian Federation. In 2013 the Bank granted loans, attracted deposits, made cash and settlement transactions and currency sale-purchase transactions in the Autonomous Republic of Crimea. Income from such operations for 2013 comprised UAH 108 thousand (0.03% of similar income generating operations of the Bank in 2013). On 1 October 2013 the Bank closed its only outlet in the Autonomous Republic of Crimea in Sevastopol. As at 31 December 2013 balance value of loans granted to Crimean customers comprised UAH 723 thousand (0.05% of gross loan portfolio of the Bank). As at 31 December 2013 balance value of non-residential property of the Bank, located in Sevastopol, comprised UAH 10,979 thousand (0.41% of total assets of the Bank), movement property – UAH 58 thousand.

Furthermore, from 1 January 2014 to 1 April 2014, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 38.9%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

All the factors mentioned above may lead to a deterioration in the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values, and losses on corporate bonds. Also, the political unrest has led to reduced levels of deposits.

Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments in the political, macroeconomic or international trade conditions may adversely affect the Bank's operating results and financial position in a manner not currently determinable.

3. Basis for preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, derivative financial instruments and available-for-sale securities have been measured at fair value.

These financial statements are presented in thousands of Ukrainian hryvnia ("UAH"), unless otherwise indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items were restated to the measuring units effective at 31 December 2000 by applying the relevant inflation indices and that these restated values were used as a basis for accounting in subsequent periods.

4. Summary of accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following amended IFRS.

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.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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 (Note 31).

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.

Investments in associates

Associates are the entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value management

The Bank measures at fair value at each balance date the following financial instruments: available-for-sale securities and derivative financial instruments. Fair value of financial instruments, measured at amortized cost, is disclosed in Note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at measurement date. Fair value measurement assumes, that transaction on selling an asset of transferring a liability takes place on:

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

Fair value of an asset of a liability is measured taking into consideration assumptions, which would be used by market participants, while determining the price of this asset or liability. Market participants are assumed to act in their best interest. Fair value measurement of non-financial asset assumes the possibility of market participant to generate economic benefits from highest and best use of an asset or its sale to other market participant, who will use the asset under "highest and best" principle.
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.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

All the assets and liabilities for which fair value is determined or disclosed in the financial statements, are classified under following fair value hierarchy based on the input data (of the lowest hierarchy level), which is significant for fair value measurement in its entirety:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 - valuation techniques which use input data (of the lowest hierarchy level), significant for fair value measurement, which is observable for the asset or liability in the market, either directly or indirectly.

Level 3 - valuation techniques which use input data (of the lowest hierarchy level), significant for fair value measurement, which is unobservable for the asset or liability in the market.

For assets that are recognised 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.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 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, and can subsequently reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are the purchases or sales of financial assets that require the delivery of assets within the period generally established by the regulation or convention in the marketplace.

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 trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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 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 reclassified to the income statement. However, the interest calculated using the effective interest method is recognised in the income statement.

Reclassification of financial assets

If a non-derivative financial asset classified as held for sale is no longer held for the purpose of selling in the near term, it may be reclassified out of the assets at fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at the NBU exchange rates set on the reporting date. Changes in the NBU exchange rates are recorded in the income statement as translation differences from precious metals in other income.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards, 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 income statement as net gains / (losses) from derivative financial instruments, depending on the nature of the instrument.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance, and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Borrowings or their components are classified as liabilities, where the substance of the contractual arrangement 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 by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

Leases

Operating – Bank as a lessee

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

Operating – Bank as a lessor

The Bank presents 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 income statement on a straight-line basis over the lease term as other income. The aggregate cost of payments to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Expenses related to the leased property are recognised as part of this property cost.

Initial measurement of financial instruments

Initially, financial assets and liabilities should be measured at fair value, including transaction costs, for assets and liabilities not measured at fair value through profit or loss.
Quoted market prices in an active market are usually the best evidence of fair value of financial instrument.
If the Bank obtains the evidence, that fair value on initial recognition differs from transaction price:

- if fair value is guided by active market quotations for identical asset or liability (input data of Level 1) or determined based on the valuation technique, which uses solely observable market data, the Bank recognized the difference between fair value on initial recognition and transaction price as profit or loss;
- in all other cases initial measurement of financial instrument is adjusted to differ for future periods differences between fair value on initial recognition and transaction price. After initial recognition the Bank recognizes deferred difference as income or expense only in case if input data becomes observable or on derecognition of the instrument.

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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.

Impairment of financial assets

The Bank assesses at each reporting date 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 has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include the 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 it 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 arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually 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.

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 income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. 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, 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. If a future write-off is later recovered, the recovery is credited to the income statement.

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 purpose 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 the type of an asset, industry, geography, collateral type, past-due status and other relevant factors.

Future cash flows on 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 the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each reporting 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 income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair values after impairment are recognised 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. The interest income is recorded in the income statement. 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 income statement, the impairment loss is reversed through the income statement.

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 negotiationg new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on the favourable terms for the borrower: in this case the loan is not recognised as impaired. Such loan is not derecognised, future cash flows remaining until the loan repayment are discounted at the original effective interest rate;
- If the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the provision charges for the period.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive the cash flows from the asset have expired;
- the Bank has transferred its rights to receive the cash flows from the asset, or retained the right to receive the cash flows from the asset, but has assumed an obligation to pay them in full without a material delay to a third party under a ‘pass-through’ arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive the cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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 the derecognition of the

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original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

Ukraine also has various operating taxes that are imposed on the Bank's activities. These taxes are included in other administrative and operating expenses in the income statement.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing a part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	2-28
Computers and office equipment	5-20
Motor vehicles	8-17

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful

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economic lives of one to twenty years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is the property held to earn rental income or for capital appreciation rather than for use in the operating activities or for administrative purposes and which is not occupied by the Bank. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognised at cost, including the acquisition costs, and carried at cost less accumulated depreciation and any accumulated impairment. Depreciation is calculated on a straight-line basis over the estimated useful lives of 50 years for buildings. The assets' residual values, useful lives and method are reviewed and adjusted at each reporting date. Gains or losses on disposal of investment property are calculated as proceeds less residual value. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Assets classified as held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount is recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset to its fair value less costs to sell if any events or changes in the circumstances indicate that its carrying amount may be impaired.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the state pension system, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the income statement in the period, in which the related salaries are earned. The Bank has no significant post-retirement benefits.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of the consideration received over the par value of shares issued is recognised as additional paid-in capital.

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Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

Segment reporting

The Bank's segment reporting is based on the following operating segments: Retail banking, Corporate banking, Financial institutions and Investments, Other. An operating segment is a component of the Bank that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same group); which operating results are regularly reviewed by the Management Board to make decisions about the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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 and taking into account the impairment. No interest income is recognised on the financial assets, which carrying amount is equal to zero due to impairment.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from the services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

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- Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Ukrainian hryvnia, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies - translation differences. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from foreign currencies: translation differences.

As at 31 December 2013, the exchange rate of Ukrainian hryvnia as established by the NBU was UAH 7.993 to 1 US dollar (2012 – UAH 7.993) and UAH 11.04153 to 1 euro (2012 – UAH 10.537172). The average exchange rate of Ukrainian hryvnia for 2013 was UAH 7.993 to 1 US dollar (2012 – UAH 7.9910) and UAH 10.6081 to 1 euro (2012 – UAH 10.2693).

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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 Bank will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also offsetting criteria as for payment systems, used under mechanisms of non-simultaneous gross payments. 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.

5. Significant judgements and estimates

In the process of applying the Bank's accounting policies, the management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant judgments and estimates are as follows:

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Fair value of financial instruments

Where the fair values of financial assets recorded in the 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 the observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan and receivables impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust the observable data for a group of loans or receivables to reflect the current circumstances.

6. Segment information

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Retail banking	Principally handling individual customers' deposits, and providing consumer loans to individuals, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and deposit and current accounts for corporate customers.
Financial institutions and Investments	Principally include products for securities transactions or for rendering services to financial and investments market participants (interbank operations, stock market, etc.).
Other/Unallocated	Other not directly allocated operation.

The management monitors the operating results of its business units separately for the purpose of making decisions about the resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

2013	*Retail banking*	*Corporate banking*	*Financial institutions and Investments*	*Other/ Unallocated*	*Total*
Third party					
Interest income	13,077	203,488	109,144	-	325,709
Fee and commission income	17,500	9,227	276	-	27,003
Non-interest income, except for fee and commission income	4,096	7,203	(2,633)	32,552	41,218
Total revenue	34,673	219,918	106,787	32,552	393,930
Interest expense	(126,991)	(46,352)	(42,020)	-	(215,363)
Fee and commission expense	(4,952)	-	(3,202)	(219)	(8,373)
Charge for impairment of assets and provisions	(2,026)	(37,520)	(2,504)	34,190	(2,852)
Non-interest expense, except for reversal of provisions for impairment of other assets and for liabilities	(36,162)	(12,297)	(3,312)	(123,190)	(174,961)
Segment results	(135,458)	123,749	60,757	(56,667)	(7,619)
Income tax benefit					1,211
Profit for the year					(6,408)
Segment assets	161,848	1,114,045	1,086,588	245,739	2,608,220
Segment liabilities	1,088,712	257,299	426,133	27,724	1,799,868
Other segment information					
Capital expenditure	-	-	-	7,788	7,788

2012	*Retail banking*	*Corporate banking*	*Financial institutions and Investments*	*Other/ Unallocated*	*Total*
Third party					
Interest income	20,007	236,419	127,370	-	383,796
Fee and commission income	22,246	13,362	666	-	36,274
Non-interest income, except for fee and commission income and net gains on reversal of impairment of securities available for sale	3,075	3,019	9,830	14,628	30,552
Total revenue	45,328	252,800	137,866	14,628	450,622
Interest expense	(117,211)	(71,737)	(41,125)	-	(230,073)
Fee and commission expense	(5,198)	(1)	(5,776)	(188)	(11,163)
Charge for impairment of assets and provisions	4,059	(81,941)	51,603	172	(26,107)
Non-interest expense, except for reversal of provisions for impairment of other assets and for liabilities	(36,356)	(13,974)	(4,264)	(129,723)	(184,317)
Segment results	(109,378)	85,147	138,304	(115,111)	(1,038)
Income tax benefit					25,108
Profit for the year					24,070
Segment assets	201,021	1,706,402	1,046,892	45,742	3,000,057
Segment liabilities	1,167,127	561,908	377,452	72,522	2,179,009
Other segment information					
Capital expenditure	-	-	-	11,960	11,960

The Bank is located in Ukraine and almost 100% of the revenue is from Ukraine. For the details of geographical concentration of the Bank's monetary assets and liabilities see Note 30.

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In years 2013 and 2012 Bank had no revenue from one counterparty that was equal or bigger than 10% of total revenue amount for the relevant periods.

7. Cash and cash equivalent

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	90,102	98,718
Current accounts with the National Bank of Ukraine	40,769	51,472
Current accounts with other credit institutions	376,587	434,127
Cash and cash equivalents	507,458	584,317

As at 31 December 2013, UAH 59,634 thousand (2012: UAH 19,921 thousand) was placed on current accounts with seven (2012: seven) internationally recognised OECD banks, which are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2013	*2012*
Term deposits with maturity over 90 days	-	68,277
Guarantee deposits	8,143	7,627
Amounts due from credit institutions	8,143	75,904

9. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2013			*2012*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Assets	*Liabilities*		*Assets*	*Liabilities*
Forwards – internal contracts	213,693	13,227	-	85,716	-	(4,434)
SWAP	97,765	1,387	-	36,125	-	(276)
Total derivative assets / (liabilities)		14,614	-		-	(4,710)

As at 31 December 2013 and 31 December 2012, the Bank has positions in the following types of derivatives:

Forwards
Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

SWAPs
Swaps are contractual agreements between two parties to exchange movements in foreign currency rates.

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10. Loans to customers

Loans to customers comprise:

	2013	*2012*
Corporate lending	1,318,488	1,705,255
Consumer lending	88,216	120,203
Residential mortgages	40,160	47,643
Gross loans to customers	1,446,864	1,873,101
Less – Allowance for impairment	(105,757)	(290,209)
Loans to customers	1,341,107	1,582,892

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending	*Consumer lending*	*Residential mortgages*	*Total*
At 1 January 2013	249,701	30,889	9,619	290,209
Charge / (Release) for the year	23,726	(687)	2,692	25,731
Amounts written-off during the year as uncollectible	(209,972)	(289)	-	(210,261)
Currency translation difference	9	60	9	78
At 31 December 2013	63,464	29,973	12,320	105,757
Individual impairment	62,562	7,774	1,552	71,888
Collective impairment	902	22,199	10,768	33,869
	63,464	29,973	12,320	105,757
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	993,566	50,992	1,552	1,046,110

	Corporate lending	*Consumer lending*	*Residential mortgages*	*Total*
At 1 January 2012	210,418	34,192	10,376	254,986
Charge / (Release) for the year	83,150	(3,347)	(776)	79,027
Amounts written-off during the year as uncollectible	(21,906)	-	-	(21,906)
Assignment of rights	(21,965)	-	-	(21,965)
Currency translation difference	4	44	19	67
На 31 грудня 2012 року	249,701	30,889	9,619	290,209
Individual impairment	249,028	6,389	1,260	256,677
Collective impairment	673	24,500	8,359	33,532
	249,701	30,889	9,619	290,209
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,133,929	71,990	2,728	1,208,647

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2013, comprised UAH 36,192 thousand (2012 – UAH 5,905 thousand).

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 commercial lending – charges over real estate properties, land and cash,
- For retail lending – mortgages over residential properties and cash.

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.

During the year, the Bank took possession of residential and non-residential buildings with an estimated value of UAH 36,202 thousand (2012: residential and non-residential buildings – 6,912 thousand and a car with an estimated value of UAH 421 thousand).

Concentration of loans to customers

As at 31 December 2013, the Bank had a concentration of loans in the amount of UAH 1,039,688 granted to ten largest third party borrowers (72% of gross loan portfolio) (2012: UAH 1,265,457 thousand or 68%). As at 31 December 2013 an allowance of UAH 60,770 thousand (2012: UAH 191,489 thousand) was recognised against these loans.

Loans have been extended to the following types of customers:

	2013	*2012*
Private companies	1,318,488	1,705,255
Individuals	128,376	167,846
	1,446,864	1,873,101

Loans are made principally within Ukraine in the following industry sectors:

	2013	*2012*
Real estate construction and management	376,426	648,348
Manufacturing	282,898	415,806
Finance	264,158	182,346
Trading enterprises	191,542	196,160
Individuals	128,376	167,846
Transport	96,364	92,815
Agriculture and food processing	89,824	85,573
Mining	9,045	82,522
Services	8,231	1,685
	1,446,864	1,873,101

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables:

	Less than 1 year	*1-5 years*	*Total*
Gross investment in finance lease	625	92	717
Unearned future finance income on finance lease	(145)	(23)	(168)
Net investment in finance lease	480	69	549

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

A The analysis of finance lease receivables as at 31 December 2012 is as follows:

	Less than 1 year	*1-5 years*	*Total*
Gross investment in finance lease	1,081	641	1,722
Unearned future finance income on finance lease	(167)	(168)	(335)
Net investment in finance lease	914	473	1,387

11. Assets held for sale

	Assets held for sale
31 December 2011	766
Additions	7,195
Transfers to other assets (Note 20)	(766)
31 December 2012	7,195
Additions	36,537
Sale	(8,170)
Transfers from investment property (Note 14)	5,051
Transfers to investment property (Note 14)	(32,189)
Transfers to property and equipment (Note 15)	(1,431)
Transfers to other assets (Note 20)	(4,078)
31 December 2013	2,915

As at 31 December 2013, assets held for sale consist of non-residential property, a land plot and an apartment. As at 31 December 2013 the fair value less estimated costs to sell these assets comprised UAH 2,907 thousand (2012:UAH 7,192 thousand). An independent appraisal of assets held-for-sale was held as at 31 December 2013.

12. Available-for-sale securities

Available-for-sale securities comprise:

	2013	*2012*
Corporate bonds	251,056	83,621
Promissory notes	33,114	213,266
Ukrainian state bonds refinanced by the NBU	24,194	56,393
Corporate shares	8,049	20
Available-for-sale securities total	316,413	353,300

Included in promissory notes are securities, for which interest is to be accrued at the weighted average interest rate of 17.18%, and which mature in March-December 2014.

Corporate bonds are represented by securities with a fixed coupon rate of 9.38% and maturity before February-September 2014.

Ukrainian state bonds refinanced by the NBU are the USD-denominated mid-term state bonds. As at 31 December 2013, the bonds with the carrying amount being the equivalent of UAH 14,919 thousand are the collateral for the loans provided by the NBU (2012: UAH 38,249 thousand) (Note 19).

According to the NBU, Ukrainian banks are allowed to cover the mandatory reserves with the Ukrainian state bonds denominated in a foreign currency in the amount of 10% of their nominal value. As at 31 December 2013, the value of the bonds used by the Bank to cover the mandatory reserves with the NBU was equivalent to UAH 2,407 thousand (2012: equivalent of UAH 5,595 thousand).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

In 2013 reversal of impairment provision for the available-for-sale securitites had place in the amount of UAH 2,504 thousand. In 2012 amount of charge to provision for impairment of available-for-sale securities was UAH 23,877 thousand.

In 2013, the impairment provisions for the available-for-sale securities were UAH 30,937 thousand; in 2012 – UAH 33,441 thousand.

In August 2013 the Bank stopped recognizing LLC "POL Invest group" as equity investment as criteria of associate company was no longer met. The balance in the amount of UAH 8,006 thousand was transferred to available-for-sale securities (Note 13).

13. Investments in associates

As at 30 November 2011, the Bank acquired 7.2% of shares of LLC "POL Invest Group" (the "Company"). During 2011-2012 The Bank recognized this Company as an associate, as the Bank has a representative in the governing body of the Company and participates in the Company's policy-making process (including the participation in dividend distribution). In August 2013 the Bank stopped recognizing the Company as equity investment as criteria of associate company was no longer met and accordingly the investment was transferred to available-for-sale securities (Note 12).

The movement in investments in associates was:

	2013	*2012*
Opening balance	8,006	8,009
Transfer to available-for-sale securities	(8,006)	-
Carrying value adjustment	-	(3)
Investments in associates, end of the period	-	8,006

14. Investment property

The movements in investment property were as follows:

	Investment property
Cost	
31 December 2012	164,049
Capital investments	7
Transfers from assets held for sale (Note 11)	32,189
Transfers from property and equipment (Note 15)	16,006
Transfers from other assets (Note 20)	1,455
Transfers to assets held for sale (Note 11)	(5,051)
Sale	(2,429)
31 December 2013	206,226
Accumulated depreciation and impairment	
31 December 2012	(6,512)
Charge for the year	(3,452)
Transfers from property and equipment (Note 15)	(2,093)
Impairment	(376)
Sale	89
31 December 2013	(12,344)
Net book value at 31 December 2013	193,882

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Investment property
Cost	
31 December 11	151,251
Capital investments	65
Transfers from property, equipment and financial lease	9,814
Transfers from other assets	17,818
Disposal (sale)	(14,899)
31 December 12	164,049
Accumulated depreciation	
31 December 11	(2,766)
Charge for the year	(3,101)
Transfers from property, equipment and financial lease	(967)
Disposal (sale)	322
31 December 12	(6,512)
Net book value at 31 December 2012	157,537

According to the independent appraisal report, the fair value of investment property as at 31 December 2013 comprised UAH 194,874 thousand. During 2013 impairment losses in the amount of UAH 376 thousand were recognised (2012: null).

15. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Computers and office equipment*	*Motor vehicle*	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost						
31 December 2012	168,555	253,720	18,129	64,208	21,538	526,150
Additions	968	1,091	980	2,214	6,929	12,182
Disposal / write-off	(50)	(197,199)	-	(2,543)	(4,803)	(204,595)
Sale	-	(14)	(1,099)	(1,391)	(17)	(2,521)
Transfers to investment property (Note14)	(16,006)	-	-	-	-	(16,006)
31 December 2013	153,467	57,598	18,010	62,488	23,647	315,210
Accumulated depreciation						
31 December 2012	(30,952)	(241,085)	(14,830)	(54,612)		(341,479)
Charge for the year	(3,199)	(3,198)	(1,004)	(2,322)		(9,723)
Disposals / write-off	35	197,137	-	2,518		199,690
Sales		14	1,095	373		1,482
Transfers to investment property (Note14)	2,093	-	-	-		2,093
31 December 2013	(32,023)	(47,132)	(14,739)	(54,043)		(147,937)
Net book value:						
31 December 2012	137,603	12,635	3,299	9,596	21,538	184,671
31 December 2013	121,444	10,466	3,271	8,445	23,647	167,273

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Buildings	*Computers and office equipment*	*Motor vehicle*	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost						
31 December 2011	178,002	255,341	18,713	70,257	32,463	554,776
Additions	795	1,189	439	913	9,317	12,653
Disposal / write-off	-	(2,363)	-	(1,740)	(3,439)	(7,542)
Sale	(430)	(7)	(991)	(5,045)	-	(6,473)
Transfers	(9,812)	(440)	(32)	(177)	(16,803)	(27,264)
31 December 2012	168,555	253,720	18,129	64,208	21,538	526,150
Accumulated depreciation						
31 December 2011	(28,507)	(240,635)	(14,577)	(53,990)		(337,709)
Charge for the year	(3,405)	(3,183)	(1,050)	(2,928)		(10,566)
Disposals / write-off	-	2,295	-	1,563		3,858
Sale	96	2	766	743		1,607
Transfers	864	436	31	-		1,331
31 December 2012	(30,952)	(241,085)	(14,830)	(54,612)		(341,479)
Net book value:						
31 December 2011	149,495	14,706	4,136	16,267	32,463	217,067
31 December 2012	137,603	12,635	3,299	9,596	21,538	184,671

16. Intangible assets

The movements in goodwill and intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2012	21,440
Additions (purchase)	1,526
Disposal (write-off)	(746)
31 December 2013	22,220
Accumulated depreciation	
31 December 2012	(11,533)
Charge for the year	(1,743)
Disposals (write-offs)	746
31 December 2013	(12,530)
Net book value:	
31 December 2012	9,907
31 December 2013	9,690

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Computer software and licenses
Cost	
31 December 2011	20,679
Additions (purchase)	1,006
Disposals (write-offs)	(222)
Transfers	(23)
31 December 2012	21,440
Accumulated depreciation	
31 December 2011	(10,170)
Charge for the year	(1,606)
Disposals (write-offs)	220
Transfers	23
31 December 2012	(11,533)
Net book value:	
31 December 2011	10,509
31 December 2012	9,907

17. Taxation

The corporate income tax expense comprises:

	2013	*2012*
Current income tax charge	16,561	9,704
Deferred tax benefit	(17,772)	(34,812)
Income tax benefit	(1,211)	(25,108)

The standard corporate income tax rate comprised 19% as at the end of 20123and 21% as at the end of 2012. In December 2010, Ukrainian Parliament adopted the new Tax Code of Ukraine, which became effective on 1 January 2011, while the corporate income tax provisions take effect from 1 April 2011. In accordance with the new Tax Code, the income tax rate was decreased to 23% from 1 April till 31 December 2011; and 21% and 19% in 2012 and 2013, respectively. Since 2014, the income tax rate is 18%.

From 1 January 2013, the income tax rate for transactions with securities and derivatives is 10%. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on the statutory rates with the actual one is as follows:

	2013	*2012*
Loss before income tax expense	(7,619)	(1,038)
Statutory tax rate	19%	21%
Theoretical income tax benefit at the statutory rate	(1,448)	(218)
Previous year taxable profit adjustment	(230)	-
Effect from change in the tax rate	5,450	(22,469)
Reversal of temporary differences	-	(14,143)
Income assessed for tax purposes only	76	-
Non-taxable income	(10,887)	
Non-taxable expenses	5,928	11,722
Expenses assessed for tax purposes only	(100)	-
Income tax benefit	(1,211)	(25,108)

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2011	*In the income statement*	*In other compre-hensive income*	*2012*	*In the income statement*	*In other compre-hensive income*	*2013*
Tax effect of deductible temporary differences:							
Accrued expenses, other liabilities	1,930	(271)	-	1,659	(83)	-	1,576
Property and equipment	577	(2,805)	2,729	501	(193)	-	308
Deferred tax assets	2,507	(3,076)	2,729	2,160	(276)	-	1,884
Tax effect of taxable temporary differences							
Allowance	(13,797)	13,019	-	(778)	778	-	-
Interest income accrued, other assets	(3,417)	2,345	-	(1,072)	997	-	(75)
Available-for-sale securities	(44,940)	22,524	501	(21,915)	16,273	786	(4,856)
Deferred tax liabilities	(62,154)	37,888	501	(23,765)	18,048	786	(4,931)
Deferred tax liabilities, net	(59,647)	34,812	3,230	(21,605)	17,772	786	(3,047)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

18. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other financial assets	*Other non-financial assets*	*Guarantees and commitments*	*Legal claims*	*Total*
31 December 2011	2,538	326	994	20,506	24,364
Charge / (reversal), including translation differences	(1,052)	815	(994)	(151)	(1,382)
Write-off during the year as uncollectible	(20)	-	-	-	(20)
31 December 2012	1,466	1,141	-	20,355	22,962
Charge / (reversal), including translation differences	139	(111)	-	(20,355)	(20,327)
Write-off during the year as uncollectible	(3)	-	-	-	(3)
31 December 2013	1,602	1,030	-	-	2,632

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

Translation differences in reversal line comprise UAH 48 thousand in 2013 (2012: null).

19. Amounts due to National Bank of Ukraine

As at 31 December 2013, included in amounts due to the NBU are two loans received during 2013 with the carrying values of UAH 13,897 thousand (UAH 2,997 thousand and UAH 10,900 thousand). The loans are UAH-denominated, bear the interest rate of 6.5% and 7.5% p.a. and mature in January 2013 and March 2013, respectively. The loans are secured by the USD-denominated Ukrainian state bonds with the carrying amount equivalent to UAH 14,919 thousand (UAH 3,089 thousand and UAH 11,830 thousand, respectively) (Note 12).

20. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Other financial assets		
Settlements with clients	2,733	911
Accrued income	1,570	1,355
	4,303	2,266
Less – Allowance for impairment of other assets (Note 18)	(1,602)	(1,466)
Other non-financial assets		
Repossessed collateral (Note 10)	4,845	2,221
Deferred expenses	2,471	503
Prepayments for assets and services	2,218	2,649
Materials	1,102	996
Prepaid taxes other than income tax	61	137
Other	87	107
	10,784	6,613
Less – Allowance for impairment of other non-financial assets (Note 18)	(1,030)	(1,141)
Other assets	12,455	6,272

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Other liabilities comprise:

	2013	2012
Other financial liabilities		
Dividends payable	4,656	4,656
Accrued expenses	1,321	1,509
Payables on operations with other financial instruments	8	-
	5,985	6,165
Other non-financial liabilities		
Accrual for unused vacation	7,546	7,256
Taxes payable other than income taxes	2,734	2,294
Deferred income	836	615
Other	615	491
	11,731	10,656
Other liabilities	17,716	16,821

21. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2013	2012
Current accounts	358,763	273,383
Term deposits and loans	45,798	57,904
Amounts due to credit institutions	404,561	331,287

As at 31 December 2013, the received funds in the amount equivalent to UAH 45,417 thousand are represented by interbank deposits and loans received from Ukrainain bank in USD (2012: equivalent of UAH 56,077 thousand represented by the interbank deposits received from Ukrainian banks in different currencies); the received funds in the amount equivalent to UAH 381 thousand are represented by a long-term USD-denominated loan received from a foreign bank (2012: equivalent of UAH 1,827 thousand represented by the USD-denominated loans received from foreign banks).

22. Amounts due to customers

Amounts due to customers include the following:

	2013	2012
Current accounts	366,999	442,611
Term deposits	979,537	1,301,831
Amounts due to customers	1,346,536	1,744,442
Held as security against letters of credit (Note 25)	-	2,081
Held as security against guarantees (Note 25)	4,391	68

As at 31 December 2013, amounts due to customers of UAH 224,413 thousand (17% of total amounts due to customers) were due to ten largest third party customers (2012: UAH 510,090 thousand (29% of total amounts due to customers)).

Included in term deposits are deposits of individuals in the amount of UAH 850,952 thousand (2012: UAH 888,358 thousand). In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Amounts due to customers include accounts with the following types of customers:

	2013	*2012*
Individuals	1,048,089	1,128,518
Private companies	258,311	577,679
Employees	40,136	38,245
Amounts due to customers	1,346,536	1,744,442

The analysis of customer accounts by economic sector is as follows:

	2013	*2012*
Individuals	1,088,225	1,166,763
Financial services	120,723	145,039
Manufacturing	31,194	117,005
Real estate construction and management	29,070	44,185
Trade	26,887	239,955
Services	20,405	14,880
Agriculture and food processing	5,472	1,805
Transport	3,235	6,997
Mining	2,139	403
Energy	1,455	3,942
Other	17,731	3,468
Amounts due to customers	1,346,536	1,744,442

23. Other borrowed funds

Included in other borrowed funds are loans received from the State Mortgage Institution in the amount of UAH 6,393 thousand (2012: UAH 5,588 thousand). Those are the funds received as the consideration for the assignment of the right of claim under the mortgage loans of individuals for the established term with a repo liability.

24. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of ordinary shares	*Nominal value*	*Inflation adjustment*	*Total*
31 December 2011	184,741,050	607,798	11,219	619,017
31 December 2012	184,741,050	607,798	11,219	619,017
31 December 2013	184,741,050	607,798	11,219	619,017

As at 31 December 2013, the number of authorised ordinary shares is 184,741,050 (2012 – 184,741,050) with a nominal value of UAH 3.29 per share. All authorised shares have been issued and fully paid and have identical voting rights. No dividends were declared or paid during 2013 and 2012.

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia, and they are entitled to dividends and any capital distribution in Ukrainian hryvnia.

Revaluation reserve
This reserve records the fair value changes on available-for-sale investments.

Additional paid-in capital
Additional capital is represented by issuance differences that appeared as the result of merger with JSCB “MT-Bank” in year 2005.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Reserves and other provisions
According to the Law of Ukraine "On Banks and Banking", the banks should create the reserves to cover the unexpected losses for all assets and off-balance sheet liabilities. Charges to the reserves should be not less than 5% of the bank`s profit up to 25% of the bank`s regulatory capital calculated according to the NBU`s requirements.

25. Commitments and contingencies

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. The management believes that the ultimate liability, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

The 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. The instances of inconsistent interpretations are not unusual. The management 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 that are applicable.

Meanwhile there is a risk of past transactions interpretation and recognition (not questioned by tax authorities in the past) being questioned in future.

As at 31 December 2013, the management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax and currency positions will be sustained.

Commitments and contingencies

As at 31 December, the Bank's financial commitments and contingencies comprised the following:

	2013	*2012*
Credit-related commitments		
Letters of credit	-	64,029
Promissory note guarantees	5,345	3,349
Guarantees	4,391	68
Total	9,736	67,446
Operating lease commitments		
Less than 1 year	3,954	4,307
1-5 years	6,874	6,713
Over 5 years	1,723	2,514
Total	12,551	13,534
Commitments and contingencies (before deducting collateral)	22,287	80,980
Less – Cash held as security against letters of credit and guarantees (Note 22)	(4,391)	(2,149)
Commitments and contingencies	17,896	78,831

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in the Bank, governments and international prime financial organisations' securities, and other assets.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Net fee and commission income

Net fee and commission income comprises:

	2013	*2012*
Cash and settlement operations	23,463	30,749
Off-balance sheet transactions	2,556	86
Fee and commission for currency market and precious metal transactions for customers	448	3,900
Credit servicing commission	431	1,113
Other commissions	105	426
Fee and commission income	27,003	36,274
Cash and settlement operations	(4,913)	(7,755)
Commission for International Payment Systems	(3,243)	(3,263)
Other commissions	(217)	(145)
Fee and commission expense	(8,373)	(11,163)
Net fee and commission income	18,630	25,111

27. Other income

	2013	*2012*
Operating lease	8,106	7,060
Recovery of written-off debts	6,456	43
Difference between the carrying amount and the fee and commission received on derecognition of a financial asset	3,565	21,965
Gain on sale of property and equipment	1,716	901
Gain on preschedule maturity of customer’s deposits	906	132
Safe rental	755	686
Penalties received	592	541
Other	1,784	542
Total other income	23,880	31,870

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

28. Personnel and other administrative and operating expenses

Salaries and other employee benefits, as well as other administrative and operating expenses comprise:

	2013	*2012*
Salaries and other employee benefits	67,322	71,415
Social security costs	22,143	23,035
Personnel expenses	89,465	94,450
Repair and maintenance	13,535	13,321
Occupancy and rent	11,374	13,032
Payments to the Individuals Deposits Guarantee Fund	8,179	6,734
Office supplies	7,456	8,244
Security	6,483	6,982
Legal and consultancy	4,399	3,666
Data processing	3,841	3,606
Communications	3,723	4,053
Business travel and related expenses	3,409	5,202
Operating taxes	2,948	3,428
Marketing and advertising	2,046	2,191
Charity	935	928
Other	2,250	3,207
Other administrative and operating expenses	70,578	74,594

29. Earnings per share

Earnings per ordinary share comprise:

	2013	*2012*
(Net losses) / Earnings attributable to the Bank's ordinary share holders	(6,408)	24,070
Average annual number of ordinary shares in issue (number of shares)	184,741,050	184,741,050
(Net loss)/Earnings per ordinary share (UAH)	(0.03)	0.13

30. Risk management

Introduction

Risk is inherent in the Bank's activities, but it is managed through the process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This 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 operational 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 structure

The Board of Directors is ultimately responsible for identifying and controlling risks. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Management Committees (Assets and Liabilities Management Committee, Credit Investment Committee, Technologic Committee, ISMS Committee)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The Assets and Liabilities Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits for liquidity and interest risks; the Credit Investment Committee - for credit risks; the Technologic Committee – for operational risks. They are responsible for the fundamental risk issues, and manage and monitor the relevant risk decisions, and maintain the risk-related procedures to ensure an independent control process.

Risk Management Unit

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The Unit is also responsible for monitoring the compliance with the risk principles, policies and limits, across the Bank. This Unit also ensures complete capture of the risks in the risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. The Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Board.

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 models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on the selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Management, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. The senior management assesses the appropriateness of the allowance for credit losses on a monthly basis.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.
The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The identified concentrations of credit risks are controlled and managed accordingly.

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Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.
The Bank monitors exposure of credit risk in relation to securities, related parties transactions and transactions with significant counterparties on a daily basis.

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 to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. 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 and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

More detailed information about the maximum credit risk exposure by each class of financial instruments is given in separate Notes. The effect of collateral and other risk mitigation measures is shown in Note 10.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

In the table below, loans to customers of a high grade are those having a low level of credit risk, the possibility of deterioration is generally considered remote, the financial performance has been strong and very well collateralised. Other borrowers with a good financial position and good debt service are included in the standard grade. The sub-standard grade comprises the loans below the standard grade but not individually impaired.

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31 December 2013	Notes	Neither past due nor impaired: High grade	Neither past due nor impaired: Standard grade	Neither past due nor impaired: Sub-standard grade	Past due or individually impaired	Total
Cash and cash equivalents, except for cash on hand	7	417,356	-	-	-	417,356
Mandatory reserve balance with the National Bank of Ukraine		21,565	-	-	-	21,565
Amounts due from credit institutions	8	8,143	-	-	-	8,143
Loans to customers	10					
Corporate lending		87,922	235,724	-	994,842	1,318,488
Consumer lending		13,947	447	-	73,822	88,216
Residential mortgages		14,527	11,172	-	14,461	40,160
		116,396	247,343	-	1,083,125	1,446,864
Available-for-sale securities	12	106,413	190,572	48,178	2,187	347,350
Total		669,873	437,915	48,178	1,085,312	2,241,278

31 December 2012	Notes	Neither past due nor impaired: High grade	Neither past due nor impaired: Standard grade	Neither past due nor impaired: Sub-standard grade	Past due or individually impaired	Total
Cash and cash equivalents, except for cash on hand	7	485,599	-	-	-	485,599
Mandatory reserve balance with the National Bank of Ukraine		24,397	-	-	-	24,397
Amounts due from credit institutions	8	75,904	-	-	-	75,904
Loans to customers	10					
Corporate lending		231,000	339,803	437	1,134,015	1,705,255
Consumer lending		18,952	1,815	-	99,436	120,203
Residential mortgages		21,062	8,818	-	17,763	47,643
		271,014	350,436	437	1,251,214	1,873,101
Available-for-sale securities	12	140,015	238,352	7,560	814	386,741
Total		996,929	588,788	7,997	1,252,028	2,845,742

The analysis of the past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2013	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Corporate lending	554	-	-	722	1,276
Consumer lending to individuals	301	221	156	22,152	22,830
Residential mortgages to individuals	705	291	283	11,630	12,909
Total	1,560	512	439	34,504	37,015

31 December 2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Corporate lending	-	-	-	85	85
Consumer lending to individuals	806	580	159	25,901	27,446
Residential mortgages to individuals	1,360	10	311	13,355	15,036
Total	2,166	590	470	39,341	42,567

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of the principal or interest are overdue by more than 90 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 makes the impairment assessment at two levels: it makes the allowances assessed individually and those assessed collectively.

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 sustainability of the counterparty's business plan, its ability to improve its performance once a financial difficulty has arisen, projected receipts, the availability of other financial support and 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 not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. 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 a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The local management is responsible for deciding on the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by the credit management to ensure the alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	2013			
	Ukraine	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and cash equivalents	442,766	59,634	5,058	507,458
Mandatory reserve balance with the National Bank of Ukraine	21,565	-	-	21,565
Amounts due from credit institutions	2,548	5,595	-	8,143
Loans to customers	1,341,107	-	-	1,341,107
Available-for-sale securities	316,413	-	-	316,413
Derivative financial assets	14,614	-	-	14,614
Other financial assets	2,700	-	1	2,701
	2,141,713	65,229	5,059	2,212,001
Liabilities:				
Amounts due to the National Bank of Ukraine	13,897	-	-	13,897
Amounts due to credit institutions	404,180	381	-	404,561
Amounts due to customers	1,335,746	926	9,864	1,346,536
Other borrowed funds	6,393	-	-	6,393
Other financial liabilities	5,501	102	382	5,985
	1,765,717	1,409	10,246	1,777,372
Net assets	375,996	63,820	(5,187)	434,629

	2012			
	Ukraine	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and cash equivalents	561,241	19,921	3,155	584,317
Mandatory reserve balance with the National Bank of Ukraine	24,397	-	-	24,397
Amounts due from credit institutions	72,707	3,197	-	75,904
Loans to customers	1,501,578	-	81,314	1,582,892
Available-for-sale securities	353,300	-	-	353,300
Other financial assets	693	23	84	800
	2,513,916	23,141	84,553	2,621,610
Liabilities:				
Amounts due to the National Bank of Ukraine	33,509	-	-	33,509
Amounts due to credit institutions	329,460	1,827	-	331,287
Amounts due to customers	1,740,114	1,153	3,175	1,744,442
Other borrowed funds	5,588	-	-	5,588
Derivative financial liabilities	4,710	-	-	4,710
Provision for liabilities	20,355	-	-	20,355
Other financial liabilities	6,155	8	2	6,165
	2,139,891	2,988	3,177	2,146,056
Net assets	374,025	20,153	81,376	475,554

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates the assessment of the expected cash flows and the availability of high grade collateral, which could be used to secure additional funding if required.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of a cash flow. The Bank has also committed the credit lines that it can assess to meet the liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBU, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

	2013, %	*2012, %*
N4 "Instant Liquidity Ratio" (cash and balances on correspondence accounts / liabilities repayable on demand) (minimum required by the NBU – not less than 20%)	41.44	71.41
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – not less than 40%)	51.85	42.73
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 – not less than 60%)	66.86	63.16

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if the 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.

Financial liabilities At 31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to the National Bank of Ukraine	14,035	-	-	-	14,035
Amounts due to credit institutions	358,763	48,162	-	-	406,925
Amounts due to customers	873,218	476,961	36,868	187	1,387,234
Other borrowed funds	-	-	227	19,809	20,036
Other liabilities	5,955	30	-	-	5,985
Total undiscounted financial liabilities	1,251,971	525,153	37,095	19,996	1,834,215

Financial liabilities At 31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	285,576	7	51,562	-	337,145
Amounts due to the National Bank of Ukraine	3,521	31,788	-	-	35,309
Amounts due to customers	1,028,121	485,396	285,148	124,647	1,923,312
Other borrowed funds	27	-	300	16,262	16,589
Other liabilities	6,163	2	-	-	6,165
Total undiscounted financial liabilities	1,323,408	517,193	337,010	140,909	2,318,520

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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	Less than 3 months	*3 to 12 months*	*Total*
2013	197	9,539	9,736
2012	526	66,920	67,446

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

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk is managed and monitored using the sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of the market risk.

Interest rate risk

Interest rate risk - the risk that the net interest income of the Bank will change due to changes in interest rates. In the event of changes in net interest income, future net cash flows from interest received / paid are subject to change as well . To determine this risk, the Bank calculates the effect of the change in interest rates of 100 basis points (1%) for all assets and liabilities.

ALCO monitors the market to determine interest rate risk and affect it by changing interest rates and maturities for the various products of the Bank. Banking risks assessment and analysis department and the Bank's ALCO control interest rates, liquidity gap and sensitivity to changes in interest rates and the corresponding impact of these factors on the Bank's profitability.

The table below summarizes the sensitivity of financial results of the Bank for a possible change in interest rates , provided that all other parameters remaining unchanged.

Sensitivity of financial result of the Bank was defined as forecast of the impact of changes in interest rates on net interest income for one year, which was calculated based on non-trading financial assets and liabilities as at 31 December 2013 and 2012.

Sensitivity of equity to changes in basis points for fixed income securities owned by the Bank was not significant during 2013 and 2012.

Currency	*Increase in basis points 2013*	*Sensitivity of net interest income 2013*	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*
EUR	1%	(292)	1%	(221)
UAH	1%	(3,364)	1%	(3,925)
USD	1%	(1,689)	1%	(547)
XAU	1%	99	1%	(55)

Currency	*Decrease in basis points 2013*	*Sensitivity of net interest income 2013*	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*
EUR	-1%	292	-1%	221
UAH	-1%	3,364	-1%	3,925
USD	-1%	1,689	-1%	547
XAU	-1%	(99)	-1%	55

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set the limits on the positions by currency based on the National Bank of Ukraine regulations. The positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Ukrainian hryvnia, with all other variables held constant, on the income statement (due to the fair value of the currency-sensitive non-trading monetary assets and liabilities). The effect on equity does not

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differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Increase of currency rate, %, 2013*	*Effect on profit before tax 2013*	*Decrease of currency rate,%, 2013*	*Effect on profit before tax 2013*
RUR	+20.00	324	-20.00	(324)
USD	+30.00	28,290	-5.00	(4,715)
EUR	+30.00	(12,864)	-5.00	2,144

Currency	*Increase of currency rate, %, 2012*	*Effect on profit before tax 2012*	*Decrease of currency rate,%, 2012*	*Effect on profit before tax 2012*
RUR	+5.00	11	-5.00	(11)
USD	+5.00	(1,671)	-5.00	1,671
EUR	+5.00	(1,756)	-5.00	1,756

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but the control framework and monitoring and responding to potential risks could be effective tools to manage the risks. The controls should include an effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

31. Fair value of financial instruments

Fair value measurement procedures

Management Board approves relevant internal regulations that defines the policies and procedures regarding periodic fair value measurement, as in the case of securities available for sale and derivative financial instruments, investment property and buildings , and for a one-time assessment of the case assets held for sale.

The process of identification of evidences of impairment of investment property and buildings is performed on yearly basis by independent appraisers, based on the order of the Bank's management. In the case of disposal of properties the Bank performs one-time independent appraisal, based on which management of the Bank and Supervisory Board approves the decision regarding disposal. Among the criteria that determine the choice of independent appraiser are market knowledge , reputation , independence and professional standards .

At each reporting date, department , conducting securities transactions , calculates the fair value of securities available for sale and derivative financial instruments that are not quoted . This calculation should be approved by the Credit and Investment Committee of the Bank. Calculation are based on quotations on active markets or models that incorporate observable market data.

Fair value hierarchy

For the purpose of fair value disclosures, the Bank's 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.

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	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Derivative financial assets	31.12.2013	1,387	13,227	-	14,614
Available-for-sale securities:					
State bonds, refinanced by the NBU	31.12.2013	24,194	-	-	24,194
Corporate bonds	31.12.2013	60,484	190,572	-	251,056
Promissory notes	31.12.2013	-	33,114	-	33,114
Corporate shares	31.12.2013	-	-	8,049	8,049
		86,065	236,913	8,049	331,027
Assets for which fair values are disclosed					
Cash and cash equivalent	31.12.2013	90,102	417,356	-	507,458
Mandatory reserve balance with the National Bank of Ukraine	31.12.2013	-	21,565	-	21,565
Amounts due from credit institutions	31.12.2013	-	8,143	-	8,143
Loans to customers	31.12.2013	-	-	1,366,756	1,366,756
		90,102	447,064	1,366,756	1,903,922
Liabilities for which fair values are disclosed					
Amounts due to the NBU	31.12.2013	-	13,897	-	13,897
Amounts due to credit institutions	31.12.2013	-	358,763	45,798	404,561
Amounts due to customers	31.12.2013	-	-	1,351,489	1,351,489
Other borrowed funds	31.12.2013	-	5,690	-	5,690
		-	378,350	1,397,287	1,775,637

At the end of 2013 , the Bank made a transfer of corporate bonds carrying amount of UAH 66.200 thousand from 1 to 2 level of fair value hierarchy. This transfer is due to the fact that the market for these corporate bonds became inactive, leading to a change in the method of fair value determination. Before the transfer the fair value was determined based on market quotations. After the transfer, the fair value is determined using models that incorporate data observable on markets.

Corporate shares are included in the level 3 of fair value hierarchy were transferred from investments in associates in a portfolio of securities available for sale (Note 12). Corporate shares are carried at cost and gain or loss was recognised during 2013. Changing the input elements to reasonably possible alternative assumptions would not have a material impact on the fair value of these instruments as at 31 December 2013.

The following table shows the analysis of the financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2012:

31 December 2012	*Level 1*	*Level 2*	*Total*
Financial assets			
Available-for-sale securities	140,014	213,286	353,280
	140,014	213,286	353,280
Financial liabilities			
Derivative financial instruments	(276)	(4,434)	(4,710)
	(276)	(4,434)	(4,710)

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2013			2012		
	Carrying amount	*Fair value*	*Unrecognised gain / (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and cash equivalents	507,458	507,458	-	584,317	584,317	-
Mandatory reserve balance with the National Bank of Ukraine	21,565	21,565	-	24,397	24,397	-
Amounts due from credit institutions	8,143	8,143	-	75,904	75,904	-
Loans to customers	1,341,107	1,366,756	25,649	1,582,892	1,641,766	58,874
Financial liabilities						
Amounts due to the NBU	13,897	13,897	-	33,509	33,509	-
Amounts due to credit institutions	404,561	404,561	-	331,287	331,287	-
Amounts due to customers	1,346,536	1,351,489	(4,953)	1,744,442	1,779,107	(34,665)
Other borrowed funds	6,393	5,690	703	5,588	4,457	1,131
Total unrecognised change in unrealised fair value			21,399			25,340

Valuation techniques and assumptions

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.

Financial assets and financial liabilities carried at amortized cost

The Fair value of instruments with no quotations, loans to customers, amounts due from credit institutions, amounts due to customers, amounts due to the NBU, amounts due to credit institutions, other financial assets and liabilities, is measured based on discounted cash flow model, which uses current market rates offered for similar financial instruments.

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32. Maturity analysis of assets and liabilities

The table below shows the analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 30 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2013			*2012*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	507,458	-	507,458	584,317	-	584,317
Mandatory reserve balance with the National Bank of Ukraine	20,884	681	21,565	24,397	-	24,397
Precious metals	12,705	-	12,705	5,659	-	5,659
Amounts due from credit institutions	8,143	-	8,143	7,627	68,277	75,904
Derivative financial assets	14,614	-	14,614	-	-	-
Loans to customers	653,268	687,839	1,341,107	737,979	844,913	1,582,892
Available-for-sale securities	316,413	-	316,413	329,530	23,770	353,300
Investments in associates	-	-	-	-	8,006	8,006
Investment property	-	193,882	193,882	-	157,537	157,537
Property and equipment	-	167,273	167,273	-	184,671	184,671
Intangible assets	-	9,690	9,690	-	9,907	9,907
Assets held for sale	2,915	-	2,915	7,195	-	7,195
Other assets	6,220	6,235	12,455	3,655	2,617	6,272
Total	1,542,620	1,065,600	2,608,220	1,700,359	1,299,698	3,000,057
Financial liabilities						
Amounts due to the National Bank of Ukraine	13,897	-	13,897	33,509	-	33,509
Amounts due to credit institutions	404,561	-	404,561	285,572	45,715	331,287
Derivative financial liabilities	-	-	-	4,710	-	4,710
Amounts due to customers	1,314,505	32,031	1,346,536	1,476,864	267,578	1,744,442
Other borrowed funds	31	6,362	6,393	27	5,561	5,588
Current income tax liabilities	7,718	-	7,718	692	-	692
Deferred tax liabilities	3,047	-	3,047	21,605	-	21,605
Provisions	-	-	-	20,355	-	20,355
Other liabilities	17,392	324	17,716	16,774	47	16,821
Total	1,761,151	38,717	1,799,868	1,860,108	318,901	2,179,009
Net	(218,531)	1,026,883	808,352	(159,749)	980,797	821,048

33. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into the transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The outstanding balances of related party transactions at the year end, and the related income and expense for the year are as follows:

	2013				*2012*			
	Share-holders	*Key mana-gement per-sonnel*	*Asso-ciates*	*Other related parties*	*Share-holders*	*Key mana-gement per-sonnel*	*Asso-ciates*	*Other related parties*
Loans outstanding at 1 January, gross	-	10,074	-	3,287	-	10,057	-	23,530
Loans issued during the year		817	-	66,218	-	5,137	-	12,262
Loan repayments during the year	-	(10,540)	-	(57,848)	-	(5,120)	-	(32,505)
Loans outstanding at 31 December, gross	-	351	-	11,657	-	10,074	-	3,287
Less: allowance for impairment at 31 December	-	-	-	(11)	-	(1)	-	(18)
Loans outstanding at 31 December, net	-	351	-	11,646	-	10,073	-	3,269
Deposits at 1 January	125,403	30,748	-	64,411	104,150	32,309	14	305,694
Deposits received during the year	76,458	60,256	-	208,969	125,435	114,814	23	97,112
Deposits repaid during the year	(90,311)	(70,215)	-	(212,442)	(104,182)	(116,375)	(17)	(338,415)
Deposits at 31 December	111,550	20,789	-	60,938	125,403	30,748	20	64,391
Current accounts at 31 December	10,707	6,089	-	365,604	16,713	9,653	129	280,010

The income and expense arising from related party transactions are as follows:

				2013				*2012*
	Share-holders	*Key mana-gement per-sonnel*	*Asso-ciates*	*Other related parties*	*Share-holders*	*Key mana-gement per-sonnel*	*Asso-ciates*	*Other related parties*
Interest income from loans	-	91	-	35,826	-	1,064	-	33,527
Interest expense from deposits	7,507	2,083	-	41,853	8,883	2,396	3	41,181
Fee and commission income	70	16	-	345	36	28	16	64
Other income	1,397	203	-	1,011	-	-	-	25
Other operating expenses	792	241	-	777	792	1	-	2,333

Transactions with related parties both with the key management personnel and other related parties are performed at arm's length terms.
Compensation of the key management personnel comprised:

	2013	*2012*
Salaries and other short-term benefits	9,765	10,091
Social security costs	1,529	1,662
Total key management personnel compensation	11,294	11,753

34. Capital adequacy

The Bank maintains and actively manages its capital base to cover the 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.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

During the past year, the Bank complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the externally imposed capital requirements and 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 its adjustments in the light of changes in the economic conditions and the risk characteristics of its operations. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to its shareholders, return capital to its shareholders or issue capital securities. No changes have been made in the objectives, policies and processes since the previous years.

NBU capital adequacy ratio

The NBU requires the banks to maintain a capital adequacy ratio of 10% of the risk-weighted assets based on Ukrainian accounting regulations.

As at 31 December 2013 and 2012, the Bank's capital adequacy ratio on this basis was as follows:

	2013	*2012*
Main capital	742,713	733,529
Additional capital	45,936	34,533
Less: deductions from capital	(22)	(8,006)
Total capital	788,627	760,056
Risk-weighted assets	2,642,252	3,207,717
Capital adequacy ratio	29.85%	23.69%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate the market risks, as at 31 December 2013 and 2012, comprised:

	2013	*2012*
Tier 1 capital	814,440	820,848
Tier 2 capital	(6,088)	200
Total capital	808,352	821,048
Risk-weighted assets	2,058,023	2,395,137
Tier 1 capital ratio	39.57%	34.27%
Total capital ratio	39.28%	34.28%