Joint Stock Company
“The State Export-Import Bank of Ukraine”
Annual Consolidated Financial Statements

for the year ended 31 December 2013
and Independent Auditor’s Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

This version of our report is a translation from the original, which was prepared in Ukrainian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position (consolidated balance sheet) as at 31 December 2013 and the consolidated statement of profit and loss (consolidated income statement), consolidated statement of comprehensive income, consolidated statement of changes in equity (consolidated statement of equity) and consolidated statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

We draw your attention to Note 23 and Note 33 to the consolidated financial statements. The operations of the Group, and those of other entities in Ukraine, have been affected and may continue to be affected for the foreseeable future by the continuing political and economic uncertainties in Ukraine. Our opinion is not qualified in respect of this matter.

LLC AF PricewaterhouseCoopers (Audit)

31 March 2014
Kyiv, Ukraine

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONSOLIDATED BALANCE SHEET)
At 31 December 2013
(thousands of Ukrainian hryvnia)

	Notes	2013	2012
Assets			
Cash and cash equivalents	6	8,321,070	19,197,296
Mandatory reserves with the National bank of Ukraine	7	740,957	531,152
Due from credit institutions	8	1,005,655	1,141,287
Loans to customers	9	41,624,943	39,365,763
Investment securities:	10		
- designated at fair value through profit or loss		3,540,585	3,538,447
- available-for-sale		29,575,699	15,026,195
- held-to-maturity		1,370,663	1,372,237
Tax assets	14	639,420	492,257
Investment property	11	3,666,666	3,707,841
Property and equipment	12	2,272,163	2,277,255
Intangible assets	13	14,696	10,770
Deferred income tax asset	14	82,963	85,216
Other assets	16	419,289	460,369
Total assets		**93,274,769**	**87,206,085**
Liabilities			
Amounts due to the National Bank of Ukraine	17	9,223,005	7,824,914
Amounts due to credit institutions	18	8,155,881	7,244,300
Amounts due to customers	19	41,461,040	42,834,285
Eurobonds issued	20	13,519,313	8,554,063
Current income tax liabilities	14	32,703	13,243
Subordinated debt	21	3,112,441	3,106,645
Other liabilities	16	159,065	248,151
Total liabilities		**75,663,448**	**69,825,601**
Equity			
Share capital	22	16,514,051	17,160,050
Revaluation reserve	22	974,461	914,633
Accumulated deficit		(28,394)	(840,431)
Reserve and other funds	22	151,203	146,232
Total equiy		**17,611,321**	**17,380,484**
Total equity and liabilities		**93,274,769**	**87,206,085**

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31 March 2014

Chairman of the Board **Vitalii Bilous**

Chief Accountant **Natalia Potemska**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS (CONSOLIDATED INCOME STATEMENT)
for the year ended 31 December 2013
(thousands of Ukrainian hryvnia)

	Notes	2013	2012
Interest income			
Loans to customers		5,449,182	5,762,104
Investment securities other than designated at fair value through profit or loss		3,332,913	1,315,561
Due from credit institutions		146,004	301,457
Amounts due from the National Bank of Ukraine		6,835	10,387
		8,934,934	7,389,509
Investment securities designed at fair value through profit or loss		309,366	301,655
		9,244,300	7,691,164
Interest expense			
Amounts due to customers		(2,827,134)	(1,923,132)
Eurobonds issued		(1,142,570)	(885,582)
Amounts due to the National Bank of Ukraine		(679,688)	(612,707)
Amounts due to credit institutions		(322,600)	(384,403)
Subordinated debt		(326,918)	(327,388)
		(5,298,910)	(4,133,212)
Net interest income		**3,945,390**	**3,557,952**
Allowance for loan impairment charge	8,9	(2,779,838)	(3,070,870)
Net interest income after allowance for loan impairment		**1,165,552**	**487,082**
Commission income		502,145	497,753
Commission expense		(132,124)	(113,559)
Commission income, net	24	**370,021**	**384,194**
Net profit from investment securities designated at fair value through profit and loss:			
- change in fair value		1,227	9,871
Net gains/(losses) from available-for-sale investment securities:			
- dealing		42,377	270,243
- losses on impairment		(165,922)	(3,414)
Net gains/(losses) from foreign currencies:			
- dealing		268,489	287,316
- translation differences		(54,159)	(34,644)
Net gains/(losses) from precious metals:			
- dealing		9,631	3,837
- translation differences		(11,348)	867
Other income		65,156	91,195
Non-interest income		**155,451**	**625,271**
Loss from changes in terms of loans to customers		(50,174)	-
Personnel expenses	25	(810,887)	(812,543)
Depreciation and amortisation	12,13	(98,911)	(89,237)
Other operating expenses	25	(391,209)	(313,705)
Other impairment and provisions	15	(6,641)	(19,772)
Non-interest expense		**(1,357,822)**	**(1,235,257)**
Income before tax		**333,202**	**261,290**
Income tax expenses	14	(132,570)	(123,975)
Profit for the year		**200,632**	**137,315**

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31 March 2014

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Chief Accountant **Natalia Potemska**

The notes on pages 9-68 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013
(thousands of Ukrainian hryvnia)

	Notes	*2013*	*2012*
Profit for the year		**200,632**	**137,315**
Other comprehensive income:			
Other comprehensive income to be reclassified through the statement of profit and loss (the income statement)			
Net gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (the consolidated income statement)		(31,842)	(270,243)
Net gains on investment securities available-for-sale	22	116,612	271,461
Income tax relating to components of other comprehensive income	14, 22	(8,477)	(7,393)
Other comprehensive income not to be reclassified through the statement of profit and loss (the income statement)			
Revaluation of property	22	-	20,852
Income tax relating to components of other comprehensive income	14, 22	-	(3,336)
Other comprehensive income for the year, net of tax		**76,293**	**11,341**
Total comprehensive income for the year		**276,925**	**148,656**

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31 March 2014

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Chief Accountant **Natalia Potemska**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONSOLIDATED STATEMENT OF EQUITY)
for the year ended 31 December 2013
(thousands of Ukrainian hryvnia)

	Share capital	*Revaluation reserve*	*Accumulated deficit*	*Reserve and other funds*	*Total capital*
At 31 December 2011	**17,126,718**	**919,600**	**(931,694)**	**143,640**	**17,258,264**
Profit for the year	-	-	137,315	-	137,315
Other comprehensive income for the year	-	11,341	-	-	11,341
Total comprehensive income for the year	**-**	**11,341**	**137,315**	**-**	**148,656**
Depreciation of revaluation reserve, net of tax (Note 22)	-	(16,290)	16,290	-	-
Revaluation reserve on property transferred to investment property, net of tax (Note 22)	-	(18)	18	-	-
Distribution of profit to the shareholder (Note 22)	-	-	(26,436)	-	(26,436)
Allocation of profits to reserve and other funds	-	-	(2,592)	2,592	-
Increase in share capital (Note 22)	33,332	-	(33,332)	-	-
At 31 December 2012	**17,160,050**	**914,633**	**(840,431)**	**146,232**	**17,380,484**
Profit for the year	-	-	200,632	-	200,632
Other comprehensive income for the year	-	76,293	-	-	76,293
Total comprehensive income for the year	**-**	**76,293**	**200,632**	**-**	**276,925**
Depreciation of revaluation reserve, net of tax (Note 22)	-	(16,465)	16,465	-	-
Distribution of profit to the shareholder (Note 22)	-	-	(46,088)	-	(46,088)
Allocation of profits to reserve and other funds	-	-	(4,971)	4,971	-
Increase in share capital (Note 22)	67,233	-	(67,233)	-	-
Write-off of the effect of applying IAS 29 (Note 22)	(713,232)	-	713,232	-	-
At 31 December 2013	**16,514,051**	**974,461**	**(28,394)**	**151,203**	**17,611,321**

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31 March 2014

Chairman of the Board **Vitalii Bilous**

Chief Accountant **Natalia Potemska**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2013
(direct method)
(thousands of Ukrainian hryvnia)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		8,101,550	6,768,629
Interest paid		(4,862,512)	(3,863,470)
Commissions received		499,311	499,523
Commissions paid		(132,124)	(113,559)
Result from dealing in foreign currencies and precious metals		278,120	291,153
Personnel expenses		(808,092)	(799,059)
Other operating income		64,523	71,336
Other operating and administrative expenses		(351,561)	(308,395)
Cash flow from operating activities before changes in operating assets and liabilities		**2,789,215**	**2,546,158**
Net (increase)/ decrease in operating assets:			
Due from credit institutions		139,251	120,503
Deposit with the National Bank of Ukraine		(208,926)	50,465
Loans to customers		(3,822,447)	20,377
Other assets		(40,804)	(96,604)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		(877,497)	278,410
Amounts due to the National Bank of Ukraine		1,312,051	1,512,868
Amounts due to customers		(1,728,996)	12,912,058
Other liabilities		(89,344)	19,144
Net cash flows from operating activities (paid)/received before income tax		**(2,527,497)**	**17,363,379**
Income tax paid		(266,501)	(9,820)
Net cash flows from operating activities (paid)/received		**(2,793,998)**	**17,353,559**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		31,389,279	56,638,450
Purchase of investment securities		(45,582,336)	(61,492,000)
Dividends received		42	-
Purchases of property, equipment and intangible assets		(97,956)	(111,120)
Proceeds from sale of property and equipment		788	453
Proceeds from sale of investment property		6,574	8,906
Net cash flows used in investing activities		**(14,283,609)**	**(4,955,311)**
Cash flows from financing activities			
Distribution of profit to the shareholder		(46,088)	(26,436)
Proceeds from Eurobonds issued		4,794,839	-
Proceeds from borrowings from credit institutions		4,584,974	1,685,701
Repayment of borrowings from credit institutions		(3,116,866)	(3,128,924)
Redemption of Eurobonds issued		-	(1,880,993)
Net cash flows from/(used in) financing activities		**6,216,859**	**(3,350,652)**

The notes on pages 9-68 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2013
(direct method)

(thousands of Ukrainian hryvnia)

	Notes	*2013*	*2012*
Effect of exchange rates changes on cash and cash equivalents		(15,478)	97,860
Net change in in cash and cash equivalents		**(10,876,226)**	**9,145,456**
Cash and cash equivalents, 1 January		**19,197,296**	**10,051,840**
Cash and cash equivalents, 31 December	**6**	**8,321,070**	**19,197,296**

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31 March 2014

Chairman of the Board **Vitalii Bilous**

Chief Accountant **Natalia Potemska**

1. Principal activities

Joint Stock Company “The State Export-Import Bank of Ukraine” (hereinafter – "UkrEximBank" or the "Bank") was founded in 1992 and registered in the State Register of Banks on 23 January 1992, with registration number 5. UkrEximBank operates under banking licence No.2 dated 5 October 2011 and a general licence to conduct foreign currency transactions (No. 2 dated 5 October 2011).

As at 31 December 2013 and 2012, 100% of UkrEximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

UkrEximBank's head office is in Kyiv at 127 Gorky Str. It has 29 branches and 94 operating outlets (31 December 2012: 29 branches and 96 operating outlets) and 2 representative offices located in London and New-York. UkrEximBank and its branches form a single legal entity.

Traditionally the main focus of UkrEximBank's operations was the servicing of various export-import transactions. Currently UkrEximBank's customer base is diversified and includes a number of large industrial and State owned enterprises. UkrEximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and internationally, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the main activities of UkrEximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. UkrEximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements.

The Bank's aim is to provide financing to investment projects (public and private) supporting the development of high value-adding industries and to manufacturers of export-oriented and import-substituting products, to raise foreign credit facilities to improve the economic development of Ukraine (including implementation of energy-saving technologies), to service foreign economic operations of its customers and to act as a financial agent on behalf of the Ukrainian Government.

These annual consolidated financial statements comprise UkrEximBank and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the trading and leasing business.

"Eximleasing" Ltd, a 100% owned subsidiary was founded in 2006 and registered in Ukraine.

2. Basis of preparation

General information

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

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies, for example investment securities available-for-sale, investment securities designated at fair value through profit or loss, buildings and investment property have been measured at fair value.

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

3. Summary of accounting policies

Changes in accounting policies

The following new standards and interpretations became effective for the Bank from 1 January 2013:

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard did not have any material impact on the Bank's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Standard resulted in additional disclosures in these consolidated financial statements (refer to Note 28).

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements". This revised Standard did not have any material impact on the Bank's consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The amended standard resulted in changed presentation of the consolidated financial statements, but did not have any impact on measurement of transactions and balances.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. This Standard resulted in additional disclosures in these consolidated financial statements (refer to Note 17).

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Bank's consolidated financial statements.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless it is impractical . The amendments also provide additional transitional relief in respect of IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information to the immediately preceding comparative period. In addition the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is applied for the first time. The amended standards did not have any material impact on the Bank's consolidated financial statements other than application of the relief from disclosure of certain comparative information in the notes to the financial statements.

Other revised standards and interpretations are not relevant to the Bank.

Basis of consolidation

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Bank controls because the Bank (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Bank has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Bank may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Bank assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Bank from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Bank, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Bank measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Bank's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Bank's equity.

Summary of accounting policies

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 initially recognised, 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 subsequently can 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 itself to purchase an asset. Regular waypurchases or sales are purchases or sales of financial assets that require delivery of assets within the period generallyestablished by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets, designated at fair value through profit or loss at inception, are included in the item 'Investment Securities' of the statement of financial position (balance sheet). Derivatives are classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated statement of profit and loss (the consolidated income statement).

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

If the Bank is unable to determine the value of the embedded derivative separately at the acquisition date or at the end of the next financial reporting period, these financial assets are accounted at fair value with changes through profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are measured at amortised cost. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and receivables are not entered into with the intention of either 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 consolidated statement of profit and loss (the consolidated 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 in any of the three preceding categories. 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 consolidated statement of profit and loss (the consolidated income statement). However, interest calculated using the effective interest method is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Investments in equity instruments that do not have a quoted market price in an active market and if their fair value cannot be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on publicly available market prices or direct dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading ceases to be held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category into one of the following :

- 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 exceptional circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables 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.

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, excluding mandatory reserves, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

Precious metals

Gold and other precious metals are recorded at fair value, which approximate the NBU bid prices and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as translation differences from precious metals in the consolidated statement of profit and loss (the consolidated income statement).

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position (the consolidated balance sheet) and in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions, the NBU or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of repo agreements using the effective interest method.

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

Promissory notes

Promissory notes purchased are included in available-for-sale investment 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.

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments including swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are derived based on quoted market prices or valuation models that take into account current and contractual market prices of the underlying instruments and any other relevant factors. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit and loss (the consolidated income statement) as net gains/ (losses) from foreign currencies and precious metals dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss.

Borrowings

Issued financial instruments 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 the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, debt securities issued, Eurobonds issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit and loss (the consolidated income statement) when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position (the consolidated balance sheet) and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated statement of profit and loss (the consolidated income statement).

Leases

i. Finance – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is recognised based on a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. 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 an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iii. Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position (the consolidated balance sheet) according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of profit and loss (the consolidated income statement) on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

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 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. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, an increased probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates 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 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 of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks 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 an 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 impairment allowance account and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated 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 impairment 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 impairment allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of profit and loss (the consolidated 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 asset type, industry, geographical location, 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 correlated 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.

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence 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 asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit and loss (the consolidated income statement).

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated statement of profit and loss (the consolidated income statement).

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 acquisition cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement — is reclassified from other comprehensive income and recognised in the consolidated statement of profit and loss (the consolidated income statement). Impairment losses on equity investments are not reversed through the consolidated statement of profit and loss (the consolidated income statement); increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as amounts due from credit institutions and loans to customers. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of profit and loss (the consolidated income statement). If, in a subsequent year the fair value of a debt instrument increases and the increase is objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit and loss (the consolidated income statement), the impairment loss is reversed through the consolidated statement of profit and loss (the consolidated income statement).

Renegotiated loans

Where possible, the Bank seeks to renegotiate loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such renegotiation is as follows:

- If the currency of the loan has been changed the old loan is derecognised and a new loan is recognised.
- If the loan renegotiation is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower: the loan is not recognised as impaired.
- If the loan is impaired after renegotiation, 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 renegotiation is included in the impairment charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to be met. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Asset management

The Bank acts as an asset manager in respect of certain funds related to construction financing . The Bank acts as an agent in these arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management industry. Accordingly, the Bank does not incur any liability relating to the funds under management. These funds under management do not comprise legal entities under the laws of Ukraine and the management of these funds is administed by the Bank. The funds are held in current accounts in the Bank until such time as they are invested in eligible assets which meet the investment requirements of these funds.

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 cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without 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 cash flows from an 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the consolidated 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 settling any financial obligation arising as a result of the guarantee.

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

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values 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 tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded in other operating expenses in the consolidated statement of profit and loss (the consolidated income statement).

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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

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

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

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Specifically, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The revalued amount of an asset as at the revaluation date equals its fair value and the accumulated depreciation equals zero. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings/(accumulated deficit).

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	15-75 years
Furniture and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (refurbishement costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

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 operating expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. 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 economic lives of five to ten 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 finite useful lives are reviewed at least at each financial year-end.

Investment property

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

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property in similar locations and categories.

Assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be 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 terms that are usual and customary for sales of such assets and the prospective sale is deemed feasible.

The prospective sale is deemed feasible 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 has been initiated. Furthermore, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and 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.

Provision

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 benefit obligations

The Bank has contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Bank has no other post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Ordinary shares are classified as equity. Share capital contributions received before 31 December 2000 are recognised at cost in the statement of financial position (balance sheet) as at 31 December 2013 (31 December 2012: were recognised at revalued amount following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies).

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position (the consolidated balance sheet) but are disclosed unless the possibility of any future outflow is considered remote. A contingent asset is not recognised in the consolidated statement of financial position (the consolidated balance sheet) but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

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 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 applied to the new carrying amount.

Commission income

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

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

Fees arising 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.

- *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.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), 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 consolidated statement of profit and loss (the consolidated 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 dealing in foreign currencies. The official NBU exchange rates at 31 December 2013 and 2012 were UAH 7,9930 and UAH 7,9930 to 1 US dollar and UAH 11,0415 and UAH 10,5372 to 1 euro, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

IFRS 9 “Financial Instruments: Classification and Measurement”. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition.

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Bank does not intend to adopt the existing version of IFRS 9.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Bank is considering the implications of the amendment and its impact on its consolidated financial statements.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Bank does not expect the amendment to have any impact on its consolidated financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Bank is currently assessing the impact of the amendments on the disclosures in its financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Bank does not expect the amendment to have any impact on its consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Bank is currently assessing the impact of the improvements on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Bank is currently assessing the impact of the improvements on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's consolidated financial statements.

(thousands of Ukrainian hryvnia, unless otherwise stated)

4. Significant accounting judgements and estimates

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

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available 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. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 418.47 million and UAH 1,020.2 million (2012: UAH 195.8 million and UAH 917.1 million), respectively. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables.The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred income tax assets

As at 31 December 2013, the Bank has recognised a deferred tax asset of UAH 82,963 thousand (31 December 2012: UAH 85,216 thousand). The Bank's management believes that within five years the Bank will have sufficient taxable profits enabling it to utilise its deferred tax assets.

5. Segment information

For management purposes, the Bank recognizes the following operating segments (business units):

Retail banking	Business Unit focussing on servicing retail customers on the full list of products, and selling products that are mainly in standardized form (as per the tariffs approved and the standard procedures) and generally do not require individual approach.
Corporate banking	Business Unit focussing on corporate customers selling products that require individual approach and are mainly offered to corporate clients.
Inter-bank and investments business	Business Unit focussing on the provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.

The Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements.

Unallocated amounts include:

- Income tax receivables and payables, the share of assets and costs associated with the work of the Bank's TOP management, i.e. personnel performing general management functions at the level of the whole Bank's system and the Bank's staff, supporting directly the work of TOP management;
- The result of the revaluation of open currency position;
- The difference between inter-segment revenues and costs of all business lines, obtained as a result of transfer rates.

For the purposes of segment reporting interest is split on the basis of uniform transfer rates set by the Assets and Liabilities Committee based on the borrowing rate of the Bank.

During the twelve months ended 31 December 2013 and 2012, the Bank had revenues from transactions with a single external customer that accounted for more than 10% of the total income of the Bank, namely UAH 1,685,860 thousand (31 December 2012: UAH 887,878 thousand). Revenues from transactions with the external customer is reflected in the segment "Inter-bank and investments business".

Analysis of income of the Bank for banking products and services is presented in the profit and loss (interest income and expenses) and Note 24 (Fee and commission income and expenses).

Ukraine is the only one geographical segment, as most of the income and assets related to Ukraine. The Bank has no significant income from sources outside Ukraine. Geographical analysis of assets and liabilities is disclosed in Note 26.

(thousands of Ukrainian hryvnia, unless otherwise stated)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2013:

	Retail banking	*Corporate banking*	*Inter-bank and investments business*	*Other/ Unallocated*	*Total*
External					
Interest income	262,663	5,337,477	3,644,160	-	9,244,300
Commission income	255,802	226,989	19,354	-	502,145
Other income	11,170	31,357	15,207	7,422	65,156
Gain from foreign currencies and precious metals	86,984	116,381	114,262	-	317,627
Gain from investment securities available-for-sale	-	-	-	341	341
Gain from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	1,227	-	1,227
Reversal of provisions for loan impairment	-	-	5,820	-	5,820
Reversal of provisions for impairment of other assets and for covering other losses	-	-	-	6,638	6,638
Income from other segments	**2,118,742**	**1,316,656**	**3,221,517**	**(6,656,915)**	**-**
Total income	**2,735,361**	**7,028,860**	**7,021,547**	**(6,642,514)**	**10,143,254**
Interest expenses	(1,759,596)	(1,017,079)	(2,522,235)	-	(5,298,910)
Commission expense	(78,392)	(45,977)	(7,584)	(171)	(132,124)
Loan impairment charge	(21,763)	(2,763,895)	-	-	(2,785,658)
Loss from operations with foreign currencies and precious metals	-	-	-	(105,014)	(105,014)
Loss from investment securities available-for-sale	-	-	(123,886)	-	(123,886)
Personnel expenses	(350,821)	(243,883)	(86,673)	(129,510)	(810,887)
Depreciation and amortisation	(64,714)	(24,655)	(3,782)	(5,760)	(98,911)
Other operating expenses	(127,546)	(68,661)	(30,922)	(164,080)	(391,209)
Charge for impairment of other assets and for covering other losses	(11,143)	(1,807)	(329)	-	(13,279)
Loss from changes in terms of loans to customers	-	(50,174)	-	-	(50,174)
Expenses from other segments	**(205,263)**	**(5,129,170)**	**(3,747,477)**	**9,081,910**	**-**
Segment results	**116,123**	**(2,316,441)**	**498,659**	**2,034,861**	**333,202**
Income tax expense					(132,570)
Profit for the year					**200,632**
Assets and liabilities					
Segment assets	4,651,579	45,432,676	42,278,145	-	92,362,400
Unallocated assets	-	-	-	912,369	912,369
Total assets					**93,274,769**
Segment liabilities	21,214,096	20,135,258	34,257,213	-	75,606,567
Unallocated liabilities	-	-	-	56,881	56,881
Total liabilities					**75,663,448**
Other segment information					
Capital expenditure	(86,433)	(29,922)	(5,228)	(7,962)	(129,545)

(thousands of Ukrainian hryvnia, unless otherwise stated)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2012:

	Retail banking	*Corporate banking*	*Inter-bank and investments business*	*Other/ Unallocated*	*Total*
External					
Interest income	261,166	5,648,051	1,781,947	-	7,691,164
Commission income	268,240	207,024	21,936	553	497,753
Other income	(21,993)	94,801	15,533	2,854	91,195
Gain from foreign currencies and precious metals	99,794	90,797	118,155	-	308,746
Gain from investment securities available-for-sale	-	24	270,136	-	270,160
Gain from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	9,871	-	9,871
Reversal of provisions for loan impairment	65,092	-	-	-	65,092
Reversal of provisions for impairment of other assets and for covering other losses	-	-	257	-	257
Income from other segments	**1,690,239**	**704,786**	**2,865,842**	**(5,260,867)**	**-**
Total income	**2,362,538**	**6,745,483**	**5,083,677**	**(5,257,460)**	**8,934,238**
Interest expenses	(1,389,161)	(437,028)	(2,307,023)	-	(4,133,212)
Commission expense	(87,473)	(18,987)	(6,892)	(207)	(113,559)
Loan impairment charge	-	(3,119,008)	(16,954)	-	(3,135,962)
Loss from operations with foreign currencies and precious metals	-	-	-	(51,370)	(51,370)
Loss from investment securities available-for-sale	(22)	-	-	(3,309)	(3,331)
Personnel expenses	(411,662)	(223,567)	(85,533)	(91,781)	(812,543)
Depreciation and amortisation	(64,556)	(10,245)	(2,083)	(12,353)	(89,237)
Other operating expenses	(133,810)	(35,661)	(31,064)	(113,170)	(313,705)
Charge for impairment of other assets and for covering other losses	(4,193)	(14,831)	-	(1,005)	(20,029)
Expenses from other segments	**(180,807)**	**(5,109,537)**	**(2,141,135)**	**7,431,479**	**-**
Segment results	**90,854**	**(2,223,381)**	**492,993**	**1,900,824**	**261,290**
Income tax expense					(123,975)
Profit for the year					**137,315**
Assets and liabilities					
Segment assets	4,512,222	43,280,922	38,712,696	-	86,505,840
Unallocated assets	-	-	-	700,245	700,245
Total assets					**87,206,085**
Segment liabilities	19,182,794	23,177,907	27,435,205	-	69,795,906
Unallocated liabilities	-	-	-	29,695	29,695
Total liabilities					**69,825,601**
Other segment information					
Capital expenditure	(84,583)	(14,541)	(2,885)	(17,107)	(119,116)

(thousands of Ukrainian hryvnia, unless otherwise stated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	977,242	801,270
Current account with the National Bank of Ukraine (other than mandatory reserve)	1,859,740	1,629,018
Current accounts with other credit institutions	3,734,311	10,066,166
Overnight deposits with other credit institutions	472,778	6,114,016
Time deposits with credit institutions up to 90 days	1,276,999	586,826
Cash and cash equivalents	**8,321,070**	**19,197,296**

As at 31 December 2013 , included in current accounts with other credit institutions is UAH 3,177,104 thousand, placed on current accounts with five OECD banks, CIS banks and banks of Ukraine (31 December 2012: UAH 9,543,007 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

As at 31 December 2013 overnight deposits represent overnight deposits placed with OECD banks. These placements earn market interest rates. UAH 472,778 thousand was placed with one OECD bank (31 December 2012: UAH 6,019,440 thousand was placed with two OECD banks).

7. Mandatory reserves with the National Bank of Ukraine

Since October 2013 Ukrainian banks are required to keep 40% of the mandatory reserve for the previous month on a separate account with the NBU (2012: 50%). The interest rate for this mandatory reserve is 30% of the official NBU discount rate. As at 31 December 2013, the amount placed by the Bank on this account, was UAH 629,753 thousand (31 December 2012: UAH 385,474 thousand). The Bank's ability to withdraw this deposit is restricted by regulatory and legislative provisions. Since October 2013, the Ukrainian banks have been allowed to cover the mandatory reserve balance held on a separate correspondent account with the NBU with the purchased foreign-currency denominated Ukrainian state bonds amounting to 10% of their carrying value in the hryvnia equivalent and long-term national currency denominated Ukrainian state bonds with the maturity of more than 3,600 days according to the initial offering terms amounting to 100% of their carrying value. In addition, the Ukrainian banks can use placements on a correspondent account opened with PJSC "Clearing Centre". As at 31 December 2013, Ukrainian state bonds with a carrying value of UAH 15,016,084 thousand (31 December 2012: UAH 3,214,963 thousand) were used by the Bank to cover its NBU mandatory reserve requirement (Note 10).

Since September 2008, Ukrainian banks are required to deposit 20% of funds raised from non-residents in foreign currency for a period of less than 183 days on a separate account with the NBU, in the form of non-interest bearing cash deposit. As at 31 December 2013 the amount placed by the Bank on this account was UAH 6,312 thousand (31 December 2012: UAH 39,458 thousand). The Bank's ability to withdraw this deposit is restricted by regulatory and legislative provisions.

Since 2009, Ukrainian banks are required to deposit an amount equivalent to the amount of impairment allowance (defined in accordance with the NBU regulations) created for loans granted in foreign currencies to borrowers with no foreign currency income, on a separate account with the NBU in the form of non-interest bearing cash deposit. As at 31 December 2013, the amount placed by the Bank on this account, was UAH 104,892 thousand (31 December 2012: UAH 106,220 thousand). The Bank's ability to withdraw this deposit is restricted by regulatory and legislative provisions.

As at 31 December 2013 and 2012 the Bank meets all the NBU's mandatory reserve requirements.

(thousands of Ukrainian hryvnia, unless otherwise stated)

8. Due from credit institutions

Amounts due from credit institutions comprise:

	2013	*2012*
Loans and deposits	890,689	963,149
Current accounts with other credit institutions in precious metals	123,603	191,529
Other amounts due from credit institutions	2,905	3,637
	1,017,197	**1,158,315**
Less– Allowance for impairment	(11,542)	(17,028)
Due from credit institutions	**1,005,655**	**1,141,287**

As at 31 December 2013, loans and deposits due from credit institutions include UAH 63,193 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (31 December 2012: UAH 51,708 thousand).

The movements in allowance for impairment of amounts due from credit institutions are as follows:

	Loans and deposits	*Total*
At 1 January 2012	-	-
Charge	16,954	16,954
Translation differences	74	74
At 31 December 2012	**17,028**	**17,028**
Reversal	(5,820)	(5,820)
Translation differences	334	334
At 31 December 2013	**11,542**	**11,542**

9. Loans to customers

Loans to customers comprise:

	2013	*2012*
Commercial loans	49,901,320	48,319,523
Overdrafts	420,975	120,940
Promissory notes	40,170	45,501
Financial lease receivables	21,207	12,543
	50,383,672	**48,498,507**
Less– Allowance for impairment	(8,758,729)	(9,132,744)
Loans to customers	**41,624,943**	**39,365,763**

Allowance for impairment of loans to customers

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

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 01 January 2013	**9,115,437**	**1,160**	**10,522**	**5,625**	**9,132,744**
Charge for the year	2,756,052	5,524	86	23,996	2,785,658
Recoveries	12,791	-	-	-	12,791
Amounts written-off	(3,226,768)	-	-	-	(3,226,768)
Translation differences	54,304	-	-	-	54,304

(thousands of Ukrainian hryvnia, unless otherwise stated)

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 31 December 2013	**8,711,816**	**6,684**	**10,608**	**29,621**	**8,758,729**
Individual impairment	8,191,554	-	10,591	29,496	8,231,641
Collective impairment	520,262	6,684	17	125	527,088
	8,711,816	**6,684**	**10,608**	**29,621**	**8,758,729**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**14,136,220**	**-**	**11,543**	**29,496**	**14,177,259**

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2012	9,412,914	26,018	4,949	42,208	9,486,089
Charge/(reversal) for the year	3,109,784	(24,858)	5,573	(36,583)	3,053,916
Recoveries	2	-	-	-	2
Amounts written-off	(3,447,997)	-	-	-	(3,447,997)
Translation differences	40,734	-	-	-	40,734
At 31 December 2012	**9,115,437**	**1,160**	**10,522**	**5,625**	**9,132,744**
Individual impairment	8,560,036	-	10,383	5,542	8,575,961
Collective impairment	555,401	1,160	139	83	556,783
	9,115,437	**1,160**	**10,522**	**5,625**	**9,132,744**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**11,428,591**	**-**	**10,385**	**32,449**	**11,471,425**

Individually impaired loans

Interest income on loans, for which individual impairment allowances have been recognised, amounts to UAH 907,059 thousand in 2013 (2012: UAH 856,410 thousand).

In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors.

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

The main types of collateral obtained are as follows:
- For securities lending and reverse repurchase transactions - cash or securities,
- For commercial lending - charges over real estate properties, inventory and trade receivables,
- For retail lending - mortgages over residential properties and vehicles.

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

As at 31 December 2013, loans to customers with a carrying value of UAH 5,462,087 thousand are pledged as collateral under loans received from the NBU (31 December 2012: UAH 5,474,344 thousand) (Note 17).

(thousands of Ukrainian hryvnia, unless otherwise stated)

Concentration of loans to customers

As at 31 December 2013, the Bank has a concentration of loans represented by UAH 17,717,687 thousand due from the ten largest borrowers (35,17% of gross loan portfolio) (31 December 2012: UAH 16,763,605 thousand or 34,57%). An allowance of UAH 1,865,130 thousand has been recognised against these loans (31 December 2012: UAH 1,401,507 thousand).

Loans and advances have been extended to the following types of customers:

	2013	*2012*
Private entities	39,575,472	35,803,405
State entities	9,524,472	11,309,974
Individuals	737,902	849,200
Municipal and utility entities	545,826	535,928
	50,383,672	**48,498,507**

Loans are made principally within Ukraine to companies of the following industry sectors:

	2013	*%*	*2012*	*%*
Agriculture and food industry	8,453,688	16.8	9,051,771	18.7
Trade	7,452,333	14.8	6,991,497	14.4
Construction	4,604,209	9.1	4,208,443	8.7
Extractive industry	4,057,443	8.1	4,256,418	8.8
Chemical industry	3,787,646	7.5	2,753,015	5.7
Mechanical engineering	3,025,476	6.0	4,063,681	8.4
Real estate	2,304,399	4.6	2,381,754	4.9
Metallurgy	2,108,140	4.2	1,707,229	3.5
Production of rubber and plastic goods	2,104,333	4.2	1,470,869	3.0
Road construction	2,095,773	4.2	2,128,029	4.4
Professional, scientific and technical activities	1,976,260	3.9	-	-
Production of construction materials	1,599,494	3.2	1,538,426	3.2
Transport and communications	1,526,288	3.0	1,975,136	4.1
Power engineering	1,335,196	2.7	1,130,453	2.3
Hotels and restaurants	1,055,912	2.1	708,463	1.5
Pulp and paper industry	806,680	1.6	694,586	1.4
Individuals	737,902	1.5	849,200	1.7
Wood processing	216,813	0.4	208,713	0.4
Light industry	175,569	0.3	404,598	0.8
Metal processing	139,028	0.3	267,834	0.5
Individual services	64,351	0.1	709,793	1.5
Other	756,739	1.4	998,599	2.1
	50,383,672	**100**	**48,498,507**	**100**

Included in the corporate lending portfolio are finance lease receivables. They may be analysed as follows:

	2013	*2012*
Gross investment in finance leases, receivable:		
Less than 1 year	16,672	12,121
From 1 to 5 years	7,645	722
	24,317	12,843
Unearned future finance income on finance leases	(3,110)	(300)
Net investment in finance leases	**21,207**	**12,543**

	2013	*2012*
Net investment in finance leases, receivable:		
Less than 1 year	14,888	11,925
From 1 to 5 years	6,319	618
Net investment in finance leases	**21,207**	**12,543**

(thousands of Ukrainian hryvnia, unless otherwise stated)

10. Investment securities

As at 31 December 2013, investment securities designated at fair value through profit and loss presented Ukrainian state bonds, principal of which will be indexed according to increases in the average interbank exchange rate of Hryvnia to United States dollar per month, prior to the month of issue, and the average exchange rate of Hryvnia to United States dollar per month, prior to maturity month. The Bank decided not to separate an embedded derivative instrument and to evaluate an instrument as a whole at its fair value, recognising revaluation as profit or loss.

As at 31 December 2013, investment securities designated at fair value through profit and loss, with a carrying value of UAH 1,038,267 thousand (31 December 2012: UAH 1,636,033 thousand) are pledged as collateral for loans received from the NBU (Note 17).

As at 31 December 2013, investment securities designated at fair value through profit and loss, with a carrying value of UAH 307,463 thousand are pledged as collateral under repurchase agreements with the NBU (31 December 2012: UAH 1,434,482 thousand) (Note 17).

Available-for-sale investment securities comprise:

	31 December 2013	*31 December 2012*
Ukrainian state bonds	17,892,254	5,220,455
Corporate bonds	8,416,862	6,540,515
Municipal entities	3,249,315	3,247,957
Corporate shares	17,268	17,268
Available-for-sale investments	**29,575,699**	**15,026,195**

As at 31 December 2013, Ukrainian state bonds classified as available-for-sale investment securities with a carrying value of UAH 15,016,084 thousand (31 December 2012: UAH 3,214,963 thousand) are used by the Bank for the partial fulfilment of the requirements for the mandatory reserves of the NBU (Note 7).

As at 31 December 2013, available-for-sale investment securities with a carrying value of UAH 4,038,764 thousand are pledged as collateral under loans received from the NBU (31 December 2012: UAH 1,447,682 thousand) (Note 17).

As at 31 December 2013, available-for-sale investment securities with a carrying value of UAH 1,836,421 thousand are pledged as collateral under repurchase agreements with the NBU (31 December 2012: nil) (Note 17).

Held-to-maturity investment securities comprise the following:

	31 December 2013		*31 December 2012*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Municipal bonds	90,000	91,085	90,000	91,219
Corporate bonds	1,244,943	1,297,814	1,244,943	1,299,270
		1,388,899		**1,390,489**
Less: Allowance for impairment (Note 15)		(18,236)		(18,252)
Held-to-maturity investments		**1,370,663**		**1,372,237**

As at 31 December 2013, held-to-maturity investment securities with a carrying value of UAH 1,297,814 thousand are pledged as collateral under loans received from the NBU (31 December 2012: UAH 1,299,270 thousand) (Note 17).

(thousands of Ukrainian hryvnia, unless otherwise stated)

11. Investment property

The movements of investment property are as follows:

	31 December 2013	*31 December 2012*
Investment property as at 1 January	3,707,841	3,088,254
Additions	-	628,346
Disposals	(6,561)	(8,837)
Net (loss) / profit from fair value adjustment	(34,614)	78
Investment property as at 31 December	**3,666,666**	**3,707,841**

In 2013, the Bank sold an investment property item with the gain of UAH 13 thousand (2012: UAH 69 thousand).

In 2013 the Bank revalued its investment property. The valuation was performed by an independent appraiser, who holds a recognised and relevant professional qualification and who has relevant experience in valuation of property of similar location and category. The highest and best use method is the key valuation principle underlying the fair value measurements in the appraisers' reports. The highest and best use method specifies that the market value of the real estate property is based on its highest and best use which creates the highest value for the property. Only asset utilisations that are technically feasible, permissible and economically justifiable are considered.

In 2013 the Bank recognised the result from adjustments of investment property fair value in the amount of UAH 34,614 thousand in other operating expenses (2012: UAH 78 thousand in other income).

The Bank leased out a portion of its investment property under operating lease agreements. Future minimum receivables under non-cancellable operating leases comprise the following:

	At 31 December 2013	*At 31 December 2012*
Less than 1 year	20,442	18,937
From 1 to 5 years	24,011	26,431
More than 5 years	-	4,113
Future minimum receivables under non-cancellable operating lease	**44,453**	**49,481**

During 2013 the Bank has recognised rental income of UAH 29,455 thousand (2012: UAH 31,125 thousand), included in other income in the consolidated statement of profit and loss (the consolidated income statement).

12. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improvements*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
At 31 December 2012	**1,931,015**	**11,876**	**334,628**	**175,181**	**26,865**	**138,990**	**2,618,555**
Additions	12	-	46,333	17,627	5,121	20,104	89,197
Disposals	-	(186)	(8,518)	(2,521)	(2,176)	(174)	(13,575)
Transfers	21,050	753	-	-	-	(21,803)	-
At 31 December 2013	**1,952,077**	**12,443**	**372,443**	**190,287**	**29,810**	**137,117**	**2,694,177**
Accumulated depreciation							
At 31 December 2012	**(5,205)**	**(10,828)**	**(200,819)**	**(109,454)**	**(14,994)**	**-**	**(341,300)**
Charge for the year	(30,975)	(676)	(41,994)	(16,574)	(3,859)	-	(94,078)
Disposals	-	170	8,518	2,504	2,172	-	13,364
At 31 December 2013	**(36,180)**	**(11,334)**	**(234,295)**	**(123,524)**	**(16,681)**	**-**	**(422,014)**

(thousands of Ukrainian hryvnia, unless otherwise stated)

Residual value:							
At 31 December 2012	**1,925,810**	**1,048**	**133,809**	**65,727**	**11,871**	**138,990**	**2,277,255**
At 31 December 2013	**1,915,897**	**1,109**	**138,148**	**66,763**	**13,129**	**137,117**	**2,272,163**

	Buildings	*Leasehold improvements*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
At 31 December 2011	**1,945,797**	**12,191**	**265,343**	**161,475**	**23,742**	**160,421**	**2,568,969**
Additions	-	-	77,307	17,622	4,518	9,405	108,852
Disposals	(82)	(447)	(8,022)	(3,916)	(1,395)	(7)	(13,869)
Less accumulated historical depreciation on revaluation	(66,220)	-	-	-	-	-	(66,220)
Transfers	30,697	132	-	-	-	(30,829)	-
Revaluation	20,823	-	-	-	-	-	20,823
At 31 December 2012	**1,931,015**	**11,876**	**334,628**	**175,181**	**26,865**	**138,990**	**2,618,555**
Accumulated depreciation							
At 31 December 2011	**(41,099)**	**(10,332)**	**(174,256)**	**(97,570)**	**(13,372)**	**-**	**(336,629)**
Charge for the year	(30,347)	(943)	(34,585)	(15,799)	(3,017)	-	(84,691)
Write-off of accumulated depreciation at revaluation	66,220	-	-	-	-	-	66,220
Disposals	21	447	8,022	3,915	1,395	-	13,800
At 31 December 2012	**(5,205)**	**(10,828)**	**(200,819)**	**(109,454)**	**(14,994)**	**-**	**(341,300)**
Residual value:							
At 31 December 2011	**1,904,698**	**1,859**	**91,087**	**63,905**	**10,370**	**160,421**	**2,232,340**
At 31 December 2012	**1,925,810**	**1,048**	**133,809**	**65,727**	**11,871**	**138,990**	**2,277,255**

As at 31 December 2013, buildings, leasehold improvements and other items of property, plant and equipment include assets with a cost or revalued amount of UAH 217,247 thousand which are fully depreciated (31 December 2012: UAH 184,154 thousand). These assets are still used by the Bank.

As at 31 December 2013, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 131,299 thousand (31 December 2012: UAH 87,540 thousand).

If the buildings are reported at cost, the carrying value is as follows:

	31 December 2013 (revalued)	*31 December 2013 (at cost)*	*31 December 2012 (revalued)*	*31 December 2012 (at cost)*
Cost	1,952,077	1,043,960	1,931,015	1,022,898
Accumulated depreciation	(36,180)	(130,724)	(5,205)	(116,214)
Residual value	**1,915,897**	**913,236**	**1,925,810**	**906,684**

(thousands of Ukrainian hryvnia, unless otherwise stated)

13. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2012	**46,821**
Additions	8,759
Disposals	(680)
At 31 December 2013	**54,900**
Accumulated depreciation	
At 31 December 2012	**(36,051)**
Charge for the year	(4,833)
Disposals	680
At 31 December 2013	**(40,204)**
Residual value:	
At 31 December 2012	**10,770**
At 31 December 2013	**14,696**

	Computer software and licenses
Cost	
At 31 December 2011	**45,714**
Additions	2,266
Disposals	(1,159)
At 31 December 2012	**46,821**
Accumulated depreciation	
At 31 December 2011	**(32,664)**
Charge for the year	(4,546)
Disposals	1,159
At 31 December 2012	**(36,051)**
Residual value:	
At 31 December 2011	**13,050**
At 31 December 2012	**10,770**

As at 31 December 2013, intangible assets include assets with a cost of UAH 27,194 thousand which have been fully amortised (31 December 2012: UAH 23,833 thousand). These assets are still used by the Bank.

14. Income tax

The corporate income tax charge comprises:

	31 December 2013	*31 December 2012*
Current tax charge	138,794	56,633
Deferred tax (credit)/charge	(6,224)	67,342
Income tax expenses	**132,570**	**123,975**

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 31 December 2013, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 19% (31 December 2012: 21%).

In December 2013, a tax rate of 18 % on corporate profits with effect from 1 January 2013 was introduced in the Tax Code of Ukraine with further annual reduction by 1% down to 16% from 2016 onwards. Deferred tax balances are determined using the tax rates that will be applicable when temporary differences are expected to reverse.

Income tax assets and liabilities consist of the following:

	31 December 2013	*31 December 2012*
Current tax assets	639,420	492,257
Deferred income tax assets	82,963	85,216
Income tax assets	**722,383**	**577,473**
Current income tax liabilities	32,703	13,243
Income tax liabilities	**32,703**	**13,243**

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

	31 December 2013	*31 December 2012*
Income before tax	333,202	261,290
Statutory tax rate	19%	21%
Income tax expense at the statutory rate	63,308	54,871
Effect of change in tax rates	4,591	611
Revaluation of temporary difference due to the changes in tax laws	51,129	50,187
Non-deductible expenditures:		
- initial recognition of investment property	9	1,146
- salaries and bonuses	3,030	3,731
- consulting and marketing	670	1,029
- utilities	3,059	2,096
- repair and maintenance of property and equipment	2,278	1,758
- charity	272	404
- lease	306	340
- other banking operating services	1,565	1,530
- other expenses	2,353	6,272
Income tax expenses	**132,570**	**123,975**

Deferred tax assets and liabilities:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	01 January 2012	*In the console-dated statement of profit and loss*	*In other comprehensive income*	*31 December 2012*	*In the console-dated statement of profit and loss*	*In other comprehensive income*	*31 December 2013*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	184,683	(184,683)	-	-	-	-	-
Accruals	18,835	(3,418)	-	15,417	(2,624)	-	12,793
Valuation of financial instruments	17,713	212,247	(7,393)	222,567	(8,241)	(8,477)	205,849

(thousands of Ukrainian hryvnia, unless otherwise stated)

		Origination and reversal of temporary differences			Origination and reversal of temporary differences		
	01 January 2012	In the console-dated statement of profit and loss	In other comprehensive income	31 December 2012	In the console-dated statement of profit and loss	In other comprehensive income	31 December 2013
Other assets/ liabilities	-	3,393	-	3,393	(3,250)	-	143
Deferred income tax assets	**221,231**	**27,539**	**(7,393)**	**241,377**	**(14,115)**	**(8,477)**	**218,785**
Tax effect of taxable temporary differences:							
Allowance for loan impairment	-	(89,969)	-	(89,969)	17,541	-	(72,428)
Property, equipment and intangible assets	(39,539)	(4,109)	(3,336)	(46,984)	(845)	-	(47,829)
Investment property	(17,921)	(1,287)	-	(19,208)	3,643	-	(15,565)
Other assets/ liabilities	(484)	484	-	-	-	-	-
Deferred tax liabilities	**(57,944)**	**(94,881)**	**(3,336)**	**(156,161)**	**20,339**	**-**	**(135,822)**
Net deferred tax assets /(liabilities)	**163,287**	**(67,342)**	**(10,729)**	**85,216**	**6,224**	**(8,477)**	**82,963**

15. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Investment securities held to maturity	*Other assets*	*Guarantees and commitments*	*Total*
At 31 December 2011	**18,270**	**17,565**	**307**	**36,142**
Translation differences	-	79	486	565
Charge/(reversal)	(18)	20,583	(793)	19,772
Amounts written-off	-	(632)	-	(632)
At 31 December 2012	**18,252**	**37,595**	**-**	**55,847**
Translation differences	-	166	-	166
Charge/(reversal)	(16)	6,657	-	6,641
Amounts written-off	-	(261)	-	(261)
At 31 December 2013	**18,236**	**44,157**	**-**	**62,393**

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

16. Other assets and liabilities

Other assets comprise:

	31 December 2013	*31 December 2012*
- other financial assets:		
Transit accounts in respect of card operations	28,320	97,331
Other accrued income	10,201	10,290
Transit accounts on transactions with customers	11,919	9,762

(thousands of Ukrainian hryvnia, unless otherwise stated)

Service fee on financial guarantees issued	5,518	4,114
Other	35	36
	55,993	121,533
Less: Allowance for impairment (Note 15)	(15,950)	(13,804)
Other financial assets	40 043	107,729
- other assets:		
Precious metals	30,572	41,583
Prepayments	79,127	37,658
Inventories	13,277	10,484
Other tax assets, except those related to income tax	283,044	285,287
Other	1,433	1,419
	407,453	376,431
Less: Allowance for impairment (Note 15)	(28,207)	(23,791)
Other assets	379,246	352,640
Total other assets	**419,289**	**460,369**

As at 31 December 2013 and 2012 other tax assets, except those related to income tax, mainly consist of a recognised VAT credit related to repossessed investment property (Note 11) which will be set-off against VAT liabilities recognised as a result of the future sale of the investment property.

As at 31 December 2013, prepayments include balances of UAH 30,858 thousand (31 December 2012: UAH 753 thousand) in respect of the purchase of property, equipment and intangible assets, and balances of UAH 6,199 thousand (31 December 2012: UAH 4,960 thousand) in respect of the construction of branch premises.

Other liabilities comprise:

	31 December 2013	*31 December 2012*
- Other financial liabilities:		
Transit accounts in respect of card operations	10,204	102,964
Liabilities in respect of financial guarantees issued	4,395	5,826
Accrued expenses	6,465	4,576
Transit accounts on transactions with customers	3,889	2,741
Other financial liabilities	24,953	116,107
- Other liabilities:		
Provision for unused vacation	54,843	51,805
Accrued salary payable	29,040	29,345
Payables to Guarantee Fund of Individuals' Deposits	30,042	26,861
Deferred income	13,775	19,260
Accrued pension contribution	779	716
Other	5,633	4,057
Other liabilities	134,112	132,044
Total other liabilities	**159,065**	**248,151**

17. Amounts due to the National Bank of Ukraine

Amounts due to the National Bank of Ukraine as at 31 December 2013 comprise:

	31 December 2013	*31 December 2012*
Loans due to the National Bank of Ukraine	7,111,848	6,408,540
Repurchase agreements	2,108,803	1,415,261

(thousands of Ukrainian hryvnia, unless otherwise stated)

Correspondent account	2,354	1,113
Amounts due to the National Bank of Ukraine	**9,223,005**	**7,824,914**

As at 31 December 2013, the Bank entered into repurchase agreements with the NBU for the amount of UAH 2,108,803 thousand (31 December 2012: UAH 1,415,261 thousand). The subject of this agreement is Ukrainian state bonds with the fair value of UAH 2,143,884 thousand (31 December 2012: UAH 1,434,482 thousand) (Note 10).

As at 31 December 2013, loans due to the National Bank of Ukraine comprise:

Origination date	Maturity date	Type of interest rate	Interest rate	Carrying value
19 March 2009	12 November 2015	Floating (NBU rate +0.5%)	7.0%	1,551,010
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	7.0%	1,924,749
03 February 2010	24 January 2016	Floating (NBU rate + 2%)	8.5%	616,089
10 July 2013	04 July 2014	Fixed rate	7.0%	320,000
14 August 2013	08 August 2014	Fixed rate	7.0%	1,000,000
22 November 2013	14 November 2014	Fixed rate	6.5%	700,000
04 December 2013	09 January 2014	Fixed rate	6.5%	1,000,000
Amounts due to the National Bank of Ukraine				**7,111,848**

As at 31 December 2012, loans due to the National Bank of Ukraine comprise:

Origination date	Maturity date	Type of interest rate	Interest rate	Carrying value
19 March 2009	12 November 2015	Floating (NBU rate +0.5%)	8.0%	1,496,188
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	8.0%	1,908,352
03 February 2010	24 January 2016	Floating (NBU rate + 2%)	9.5%	624,000
03 September 2012	23 August 2013	Fixed rate	7.5%	1,500,000
13 December 2012	18 October 2013	Fixed rate	7.5%	160,000
26 December 2012	10 December 2013	Fixed rate	7.5%	720,000
Amounts due to the National Bank of Ukraine				**6,408,540**

These loans are initially recognized at fair value, which was based on the market data at the date of recognition.

Loans due to the NBU are secured with loans to customers (Note 9) and investment securities (Note 10).

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2013	*31 December 2012*
Loans and deposits due to other banks	2,391,545	3,008,711
Loans due to international financial organisations	5,032,008	2,844,221
Current accounts	732,230	1,391,355
Other amounts due to credit institutions	98	13
Amounts due to credit institutions	**8,155,881**	**7,244,300**
Held as security against guarantees (Note 23)	52,446	53,275

As at 31 December 2013, included in current accounts is UAH 362,224 thousand received from five Ukrainian and non-OECD banks (31 December 2012: UAH 929,285 thousand received from five Ukrainian banks and non-OECD banks). The amount was received under normal banking terms and conditions.

As at 31 December 2013, included in amounts due to credit institutions is UAH 851,419 thousand received from Ukrainian banks (31 December 2012: UAH 1,213,375 thousand).

(thousands of Ukrainian hryvnia, unless otherwise stated)

As at 31 December 2013, loans and deposits due to other banks include UAH 56,859 thousand received from Kreditanstalt fur Wiederaufbau ("KfW") under loan agreements for financing small and medium-sized enterprises in Ukraine (31 December 2012: UAH 112,343 thousand). The loans are denominated in US dollars, have a current interest rate of LIBOR +2.75% and mature in 2014.

As at 31 December 2013, loans and deposits due to other banks and loans due to international financial organisations include UAH 904,251 thousand, UAH 297,154 thousand and UAH 2,080 thousand received from OECD banks, international financial organisations and other foreign banks, respectively, under the trade and export financing agreements (31 December 2012: UAH 1,055,608 thousand, UAH 383,302 thousand and UAH 91 thousand respectively). These loans are denominated in US dollars, euros, Swiss francs and Japanese yen and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the respective trade and export financing programmes.

International financial institutions loans include loans from the International Bank for Reconstruction and Development (IBRD) within the framework of the second project of export development and additional finance for the second project of export development totalling UAH 1,129,043 thousand (31 December 2012: UAH 970,937 thousand). The total amount of these loans under the loan agreements is USD 304,500 thousand. Proceeds from these loans are used for mid and long-term financing of Ukrainian borrowers that meet the criteria of the IBRD, and are distributed among the Ukrainian commercial banks that meet the criteria of the IBRD. These loans are denominated in US dollars received by the Bank with interest rate of LIBOR + spread IBRD, which is reviewed twice a year, and have a current interest rate: 0.62% and 0.83%, maturing in 2026 and 2041 respectively.

Loans from international financial institutions include loans from the International Bank for Reconstruction and Development ("IBRD") for the Project on Energy Efficiency in the amount of UAH 415,973 thousand (31 December 2012: UAH 97,624 thousand). Proceeds from this loan are used to finance Ukrainian borrowers who meet the criteria of the IBRD, and are distributed among the Ukrainian commercial banks that meet the criteria of the IBRD. The loan is denominated in US dollars with an interest rate of LIBOR + spread IBRD, which is reviewed twice a year, with the current interest rate: 0.83%, the loan matures in 2040.

International financial institutions loans include loans from the European Bank for Reconstruction and Development ("EBRD") within the framework of the energy efficiency programs in Ukraine totalling UAH 449,745 thousand (31 December 2012: UAH 534,349 thousand). These loans are denominated in US dollars and maturing in 2014 and 2017 respectively, have floating interest rates: LIBOR +2.5%, LIBOR +5.5% and LIBOR +6.5%, which currently are 2.90%, 6.90%, 5.85% and 5.81% respectively.

For the purposes of the cash flow statement presentation, the Bank allocates funds, attracted from credit institutions, between the funds for the operating and financing activities. Funds raised from the Ukrainian banks are included in the category of funds for operational activities, and funds from other banks for financing activities.

19. Amounts due to customers

Amounts due to customers comprise:

	31 December 2013	*31 December 2012*
Current accounts		
- Legal entities	5,701,404	4,812,423
- Budget financed organisations	1,695,207	3,631,474
- Individuals	1,594,204	1,371,260
- Due to funds under the Bank's management (see below)	1,069	7,516
	8,991,884	**9,822,673**
Time deposits		
- Legal entities	16,847,917	18,710,284
- Individuals	15,621,239	14,300,749
- Budget financed organisations	-	579
	32,469,156	**33,011,612**

(thousands of Ukrainian hryvnia, unless otherwise stated)

Amounts due to customers	**41,461,040**	**42,834,285**
Held as security against loans to customers	1,887,368	614,737
Held as security against letters of credit (Note 23)	82,615	505,233
Held as security against guarantees and avals (Note 23)	139,431	155,161
Held as security against undrawn loan commitments (Note 23)	10,614	2,669

As at 31 December 2013, legal entities current accounts included funds of top ten customers in the amount of UAH 950,558 thousand (16.7% of legal entities current accounts) (31 December 2012: UAH 993,376 thousand, or 20.6%).

As at 31 December 2013, individuals' current accounts included funds of top ten customers in the amount of UAH 20,628 thousand (1.3% of individuals' current accounts) (31 December 2012: UAH 14,194 thousand, or 1.0%).

As at 31 December 2013, term deposits of legal entities included funds raised from five customers – legal entities in the amount of UAH 10,116,104 thousand (60.0% of term deposits of legal entities) (31 December 2012: UAH 13,511,754 thousand, or 72.2%).

As at 31 December 2013, term deposits of individuals included funds raised from ten individuals in the amount of UAH 784,463 thousand (5.0% of term deposits of individuals) (31 December 2012: UAH 739,347 thousand, or 5.2%).

As at 31 December 2013, term deposits of legal entities included funds raised in gold, which are accounted for at fair value through profit or loss in the amount to UAH 5,130 thousand (31 December 2012: UAH 15,724 thousand).

As at 31 December 2013, term deposits of individuals included funds raised in gold, which are accounted at fair value through profit or loss in the amount to UAH 98,619 thousand (31 December 2012: UAH 156,993 thousand).

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

Funds under the Bank's management

The Bank acts as an asset manager in respect of certain funds related to construction financing Amounts due to funds under the Bank's management are as follows:

	2013	*2012*
At 1 January	**7,516**	**12,674**
Funds attracted from individuals	34,542	103,647
Invested funds	(40,989)	(108,805)
At 31 December	**1,069**	**7,516**

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

	31 December 2013	*%*	*31 December 2012*	*%*
Individuals	17,215,443	41.5	15,672,009	36.6
Agriculture and food industry	10,794,465	26.0	12,934,457	30.2
Trade	2,858,978	6.9	2,005,492	4.7
Budget organizations	1,695,207	4.1	3,632,053	8.5
Finance	1,456,758	3.5	1,121,999	2.6
Mechanical engineering	1,140,368	2.8	875,775	2.0
Transport and communications	1,124,164	2.7	2,015,978	4.7
Real estate	840,387	2.0	903,468	2.1
Professional, scientific and technical activities	645,431	1.6	162,592	0.4
Construction	478,749	1.1	705,066	1.6
Information and telecommunications	317,833	0.8	152,373	0.4
Power engineering	218,472	0.5	645,301	1.5

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2013	*%*	*31 December 2012*	*%*
Chemical industry	191,623	0.5	333,710	0.8
Metal processing	169,863	0.4	171,244	0.4
Production of construction materials	165,338	0.4	119,568	0.3
Personal services	158,767	0.4	134,179	0.3
Health protection	150,936	0.4	137,074	0.3
Processing	132,722	0.3	65,668	0.2
Wood processing	130,587	0.3	36,717	0.1
Extractive industry	110,434	0.3	119,734	0.3
Production of rubber and plastic goods	93,420	0.2	72,343	0.2
Education	86,646	0.2	82,638	0.2
Pulp and paper industry	75,103	0.2	106,707	0.2
Metallurgy	66,910	0.2	49,825	0.1
Hotels and restaurants	57,388	0.1	25,526	0.1
Culture and sport	41,090	0.1	65,362	0.1
Other	1,043,958	2.5	487,427	1.1
Amounts due to customers	**41,461,040**	**100**	**42,834,285**	**100**

20. Eurobonds issued

	At 31 December 2013		*At 31 December 2012*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
April 2010 issue	3,996,500	4,048,178	3,996,500	4,042,389
October 2010 issue	1,998,250	2,024,089	1,998,250	2,021,195
February 2011 issue	2,385,050	2,504,580	2,385,050	2,490,479
January 2013 issue	3,996,500	4,118,722	-	-
April 2013 issue	799,300	823,744	-	-
Eurobonds issued		**13,519,313**		**8,554,063**

In April 2010, the Bank, through BIZ Finance PLC (consolidated structured company registered in the United Kingdom), issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,998,250 thousand at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

In February 2011, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of deposit linked notes in UAH 1,250 thousand denominations with a total nominal value for the issue of UAH 2,385,050 thousand. The bonds carry a fixed coupon rate of 11% p.a. and mature in February 2014.

In January 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.75% p.a. and mature in January 2018.

In April 2013, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.75% p.a. The bonds mature in January 2018 and were consolidated and form a single series with the notes issued in January 2013.

All Eurobonds issued are subject to various covenants and restrictions (Note 23).

21. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 759,335 thousand) from Credit Suisse International (carrying value of UAH 771,430 thousand as at 31 December 2013 (2012: UAH 769,210 thousand). This loan was funded by 8.4% loan participation notes issued on a limited recourse basis by Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. The loan matures in February 2016. Interest payments are made semi-annually in arrears on 09 February and 09 August of each year, commencing on 09 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 239,790 thousand) from Credit Suisse International (carrying value of UAH 243,610 thousand as at 31 December 2013 (2012: UAH 242,908 thousand). This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the securities issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan.

In May 2009, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 1,998,250 thousand) from the EBRD (carrying value of UAH 2,097,401 thousand as at 31 December 2013 (2012: UAH 2,094,527 thousand). The loan matures in May 2019 with an interest rate change in 2014. Interest payments are made semi-annually in arrears on 28 July and 28 January of each year, commencing on 28 July 2009.

Subordinated debts are subject to various covenants and restrictions (Note 23).

22. Equity

As at 31 December 2013, the Bank's authorised issued share capital comprised 11,414,901 (31 December 2012: 11,414,901) ordinary shares with a nominal value of UAH 1,446.71 per share (31 December 2012: 1,440.82 per share). All shares have equal voting rights. As at 31 December 2013, 11,414,901 shares were fully paid and registered (31 December 2012: shares were fully paid and registered).

As at 31 December 2012, the annual consolidated financial statements reflected the amount of paid-in share capital stated at cost, which was restated using the consumer price index for the contributions made before 31 December 2000. The share capital of the Bank was contributed in Ukrainian hryvnia. Pursuant to the decision of the Board of Directors, the share capital of the Bank in the financial statements for the year ended 31 December 2013 was decreased by UAH 713,232 thousand, through the write-off of the effect of applying IAS 29 "Financial Reporting in Hyperinflationary Economies" recognised in the financial statements according to the account balances as at 31 December 2000.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
At 01 January 2012	**11,414,901**	**16,413,486**	**17,126,718**
Shares issued	-	33,332	33,332
At 31 December 2012	**11,414,901**	**16,446,818**	**17,160,050**
Shares issued	-	67,233	67,233
Write-off of the effect of applying IAS 29	-	-	(713,232)
At 31 December 2013	**11,414,901**	**16,514,051**	**16,514,051**

In December 2013, according to the Resolution of the Cabinet of Ministers of Ukraine No 630 dated 28 August 2013 the Bank's share capital was increased by UAH 67,233 thousand through capitalisation of part of the net profit for 2011 and retained earnings of previous years according to UAR.

In May 2013, in accordance with the legislation of Ukraine, the Bank made a profit distribution to shareholders in the amount of UAH 46,088 thousand.

(thousands of Ukrainian hryvnia, unless otherwise stated)

In May 2012, according to the Resolution of the Cabinet of Ministers of Ukraine No 225 dated 21 March 2012 the Bank's share capital was increased by UAH 33,332 thousand through capitalisation of part of the net profit for 2010 and retained earnings of previous years according to UAR.

In May 2012, in accordance with the legislation of Ukraine, the Bank made a profit distribution to shareholders in the amount of UAH 26,436 thousand.

The accumulated deficit shown in these consolidated annual financial statements arises as a result of capitalising profits from previous years (as shown in the financial statements prepared according to UAR) and profits for previous years according to IFRS which have been retained.

Movements in revaluation reserves

Movements in revaluation reserves were as follows:

	Property revaluation reserve	***Unrealised gains/ (losses) on investment securities***	***Revaluation reserves***
At 01 January 2012	**971,822**	**(52,222)**	**919,600**
Revaluation of property, plant and equipment	20,852	-	20,852
Depreciation of revaluation reserve, net of tax	(16,290)	-	(16,290)
Realised revaluation reserve on property transferred to accumulated deficit	(18)	-	(18)
Realised gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss (consolidated income statement)	-	(270,243)	(270,243)
Net unrealised gains on available-for-sale investment securities	-	271,461	271,461
Tax effect of net losses on investment securities available-for-sale	(3,336)	(7,393)	(10,729)
At 31 December 2012	**973,030**	**(58,397)**	**914,633**
Depreciation of revaluation reserve, net of tax	(16,465)	-	(16,465)
Realised gains on investment securities available-for-sale reclassified to the consolidated statement of profit and loss	-	(31,842)	(42,377)
Net unrealised gains on available-for-sale investment securities	-	116,612	127,147
Tax effect of net income from investment securities available-for-sale	-	(8,477)	(8,477)
At 31 December 2013	**956,565**	**17,896**	**974,461**

Nature and purpose of revaluation reserves

Property revaluation reserve

The revaluation reserve for property, plant and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/ (losses) on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

Reserves and other funds of the Bank

The reserve fund is created in accordance with the Charter to achieve 25 per cent of the size of the regulatory capital at the beginning of each year. The size of the allocations to the reserve fund is not less than 5 per cent of the amount of the Bank's annual profit. The reserve fund is created for incidental losses for all assets and off-balance sheet commitments.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2013, the Bank has distributable reserves amounting to UAH 215,688 thousand (31 December 2012: UAH 232,809 thousand). The amount of non-distributable reserves was UAH 1,167,323 thousand (31 December 2012: UAH 1,098,102 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

23. Commitments and contingencies

Operating environment

The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. As a developing economy, it is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2013, the world demand for Ukraine's main export commodities, steel and iron ore, was weak. The year was marked by one of the record crop harvests; however world prices for wheat, corn and sunflower seed reduced significantly due to peak harvests in other crop producing regions. In 2013 Ukraine's GDP was flat year on year (2012: increase by 0.2%), while industrial output contracted by 4.7% (2012: reduction by 0.5%). The Government of Ukraine introduced a number of restrictions in relation to foreign exchange aiming to support the national currency, the Ukrainian Hryvnia. Inflation during the year was close to zero as the National Bank of Ukraine reduced the money supply. The national foreign exchange reserves reduced to the level of 3 month imports at year end due to reduced inflows from sale of commodities and agro produce, the need to settle scheduled payments, primarily with International Monetary Fund, and to pay the current and past purchases of natural gas.

Legal aspects

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, 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.

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. 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 and withholdings that are applicable.

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

Since 1 September 2013 transfer pricing rules came into force. These rules provide that in the case of transactions with related parties and, in some cases with unrelated parties (controlled operations) are not at market value, entities should charge additional taxes.

The Bank enters into controlled transactions solely at market prices. The Bank has implemented the necessary internal controls for compliance of the transfer pricing.

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2013	*31 December 2012*
Letters of credit	570,869	723,645
Guarantees	2,137,681	2,664,776
Avals on promissory notes	28,152	32,046
Undrawn loan commitments	181,582	194,089
	2,918,284	**3,614,556**
Financial commitments and contingencies (before deducting collateral)	**2,918,284**	**3,614,556**
Less — cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 18, Note 19)	(285,106)	(716,338)
Financial commitments and contingencies	**2,633,178**	**2,898,218**

As at 31 December 2013, the Bank issued letters of credit of UAH 483,376 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 35,698 thousand (31 December 2012: UAH 508,346 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 432,412 thousand). As at 31 December 2013, the Bank issued guarantees of UAH 1,539,297 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 32,161 thousand (31 December 2012: UAH 2,139,749 thousand in favour of four Ukrainian companies that were partially secured by cash deposits of UAH 12,190 thousand).

As at 31 December 2013 undrawm loan commitments for plastic cards amounted to UAH 139,852 thousand (31 December 2012: UAH 82,486 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

24. Net commission income

Net commission income comprises:

	2013	*2012*
Commission income		
Cash and settlement service	327,130	313,758
Guarantees and letters of credit	86,988	104,646
Operations with banks	65,038	57,026
Credit servicing commission	7,128	9,290
Other	15,861	13,033
	502,145	**497,753**
Commission expense		
Cash and settlement service	(110,527)	(90,084)
Guarantees and letters of credit	(16,746)	(21,030)
Currency conversion	(2,972)	(2,392)
Other	(1,879)	(53)
	(132,124)	**(113,559)**
Net commission income	**370,021**	**384,194**

(thousands of Ukrainian hryvnia, unless otherwise stated)

25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2013	*2012*
Salaries and bonuses	640,868	646,310
Charges on payroll	170,019	166,233
Personnel expenses	**810,887**	**812,543**
Payables to Guarantee Fund of Individuals' Deposits	114,823	77,768
Repair and maintenance expenses	46,359	46,445
Loss on fair value adjustment for investment property	34,614	-
Security	26,388	23,353
Occupancy cost	23,492	22,468
Expenses for cash collection	18,529	14,624
Rent cost	17,860	16,739
Marketing and advertising	16,626	14,043
Household expenses	14,130	11,757
Electronic and data processing costs	14,072	13,318
Operating taxes	10,198	10,202
Business travel and related expenses	6,968	7,405
Communications	6,594	6,016
Expenses related to representative offices	6,028	5,691
Legal and advisory services	4,393	6,841
Charity	1,860	1,546
Other	28,275	35,489
Other operating expenses	**391,209**	**313,705**

Expenses for payment to the non-state pension fund in 2013 comprised UAH 9,447 thousand (2012: UAH 9,171 thousand).

26. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. The risk management process makes a crucial contribution in ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for adhering to the risk management rules and procedures in the course of fulfilling their tasks and duties.

The Bank adheres to the following key risk management principles:

- centralisation of liquidity, interest and currency risk management at the Head Office level;
- unification of analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- definition of risk limits for transaction volumes: by Bank or Branch Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions/ balance sheet items, etc.);
- ensuring continuous risk monitoring and control and compliance with all established limits;
- avoidance of conflicts of interest;

- ensuring internal control over compliance with policies and procedures.

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

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

Risk management structure

The Supervisory Board is generally responsible for establishment and approval of objectives in the sphere of risk management and management of capital. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Securities Division, Treasury Division, Risk Management Division, Audit and Revision Division.

Supervisory Board

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

Management Board

The Management Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by relevant risk decisions based on quarterly reports of the Risk Management Division, ALCO, Credit Committee and Retail Business Committee. The Management Board approves the Bank's risk management.

Assets and Liabilities Committee ("ALCO")

The ALCO has the overall responsibility for implementing principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by the Management Board. The ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

The Credit Committee and Retail Business Committee have the overall responsibility for implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Management Board. These committees report to the Management Board.

Risk Management Division

Risk Management Division is responsible for control, monitoring, analysis and reporting of key risk indicators connected with the Bank's activities. In addition, Risk Management Division elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. The Risk Management Division reports to the Management Board.

Treasury and Securities Divisions

Treasury is responsible for the management of the Bank's liquidity position via money market operations, while Securities Division is responsible for management of the Bank's liquidity position via capital market operations. The Treasury Division and Securities Division report to the Management Board.

Audit and Inspection Division

The risk management processes are audited on a regular basis by Audit and Inspection Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Management Board and the Supervisory Board.

Risk measurement and risk reporting systems

The Bank's risks are measured using methods which reflect both the expected loss under 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 worse case scenarios relflecting the impact of extreme events with la low probability of occurrence . The Bank carries out back-testing of the models to checks their adequacy.

Risks are monitored and controlled primarily 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 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 regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by the ALCO, and covenants under contractual obligations of the Bank is submitted to the ALCO on a monthly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

Risk Mitigation

The Bank does not use derivatives to manage risks arising from changes in interest rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise credit risk (see below for more detail).

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

Credit risk

The Banks considers credit risk as the probability of non-timely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

In managing credit risk, the Bank considers the following:

- structural (strategic) management — acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in short, medium and long term horizon taking into consideration estimated and unpredictable changes in the financial and economic environment;
- ongoing (operational) management - acceptable quality and volume of individual loans and commitments taking into consideration estimated and unpredictable changes in the financial and economic environment;
- structural (strategic) and ongoing (operational) management of the allowance for impairment effect on the Bank's capital adequacy ratio in short, medium and long term horizon taking into consideration estimated and

unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- setting targets (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;
- providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank's internal regulations;
- creation and maintaining allowances and provisions for loan related operations in volumes, which are not lower than the Bank's best estimates;
- constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio;
- taking efficient measures if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer's (counterparties') creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one insider, including financial commitments and contingencies.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: industry classification on the basis of an internal system of industry ratings, which characterises the systematic risk of the industry; monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 20 largest customers.

Credit-related commitment risks

(thousands of Ukrainian hryvnia, unless otherwise stated)

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks, and are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. If the letters of credit are opened on uncovered basis the Bank has risks similar to credit risks, which are mitigated by similar control procedures and principles.

The maximum exposure to credit risk for the components of the consolidated statement of financial position before the effect of mitigation through the use of collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value 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.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Credit quality by *category* of financial assets

The Bank uses an internal system of credit ratings from A + to F (16 grades), where the highest rating of A+ is characterized by an extremely high ability of the borrower to fulfill its debt obligations, and the worst rating F is for borrowers who have stopped work and/or are bankrupt. In the table below, for loans that are not past due and not inidividually impaired, rating A and B mean the minimum level of credit risk. Other borrowers with good financial position and quality of debt servicing are included in the credit ratings of C and D and lower. This rating have lower credit quality compared to previous ratings, but loans are not necessarily individually impaired. For loans that are past due or individually impaired, rating D and higher indicates that there is a possibility of delays in loan repayment as a result of adverse changes in commercial, financial and economic conditions. Rating E and F or no rating means that there is a high probability of default of loan, the borrower's activity is poor, loss making or ceased. For the exposures of foreign credit institutions: rating A and B is equal to the Fitch rating BBB- and higher, rating C is equal to lower than BBB- , but higher than CCC+, and rating D and lower is equal to rating CCC+ and lower.

		Neither past due nor individually impaired			***Past due or individually impaired***		
At 31 December 2013	***Notes***	***Rating A and B***	***Rating C***	***Rating D and lower***	***Rating D and higher***	***Rating E and F or no rating***	***Total***
Cash and cash equivalents	6	8,158,426	130,781	31,863	-	-	8,321,070
Mandatory reserves with the National Bank of Ukraine	7	740,957	-	-	-	-	740,957
Amounts due from foreign credit institutions	8	186,786	-	-	-	-	186,786
Amounts due from Ukrainian credit institutions	8	-	195,090	632,416	-	-	827,506
Investment securities:	10						
- designated at fair value through profit or loss		3,540,585	-	-	-	-	3,540,585
- available-for-sale		18,918,336	7,458,357	3,181,738	-	-	29,558,431
- held-to-maturity		197,253	-	1,100,561	91,085	-	1,388,899
Loans to corporate customers:	9						
Commercial loans		3,074,314	25,288,813	6,298,716	8,702,797	5,798,788	49,163,428
Overdrafts		33,051	167,093	220,821	-		420,965
Finance lease receivables		-	9,664	-	-	11,543	21,207

(thousands of Ukrainian hryvnia, unless otherwise stated)

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2013	***Notes***	***Rating A and B***	***Rating C***	***Rating D and lower***	***Rating D and higher***	***Rating E and F or no rating***	***Total***
Promissory notes		-	10,674	-	29,496		40,170
		3,107,365	25,476,244	6,519,537	8,732,293	5,810,331	49,645,770
Loans to individuals		164,935	86,407	149,764	166,345	170,451	737,902
Total		**35,014,643**	**33,346,879**	**11,615,879**	**8,989,723**	**5,980,782**	**94,947,906**

		Neither past due nor individually impaired			*Past due or individually impaired*		
At 31 December 2012	***Notes***	***Rating A and B***	***Rating C***	***Rating D and lower***	***Rating D and higher***	***Rating E and F or no rating***	***Total***
Cash and cash equivalents	6	18,512,404	118,094	566,798	-	-	19,197,296
Mandatory reserves with the National Bank of Ukraine	7	531,152	-	-	-	-	531,152
Amounts due from foreign credit institutions	8	245,822	-	-	-	-	245,822
Amounts due from Ukrainian credit institutions	8	-	178,846	733,647	-	-	912,493
Investment securities:							
- designated at fair value through profit or loss	10	3,538,447	-	-	-	-	3,538,447
- available-for-sale		6,261,666	5,466,557	3,280,704	-	-	15,008,927
- held-to-maturity		197,556	-	1,101,713	91,220	-	1,390,489
Loans to corporate customers:	9						
Commercial loans		2,935,214	22,758,500	10,296,041	5,857,145	5,623,427	47,470,327
Overdrafts		14,692	95,655	10,589	-	-	120,936
Finance lease receivables		-	-	2,158	-	10,385	12,543
Promissory notes		3,678	9,374	-	32,449	-	45,501
		2,953,584	22,863,529	10,308,788	5,889,594	5,633,812	47,649,307
Loans to individuals	9	202,594	264,910	29,467	64,713	287,516	849,200
Total		**32,443,225**	**28,891,936**	**16,021,117**	**6,045,527**	**5,921,328**	**89,323,133**

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The ageing analysis of past due but not impaired loans is provided below:

(thousands of Ukrainian hryvnia, unless otherwise stated)

At 31 December 2013	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Loans to corporate customers	463,880	60,055	1,610	169,537	695,082
Loans to individuals	5,942	445	208	485	7,080
Total	**469,822**	**60,500**	**1,818**	**170,022**	**702,162**

At 31 December 2012	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Loans to corporate customers	191,802	24,397	128,459	14,362	359,020
Loans to individuals	8,423	4,538	31,864	365	45,190
Total	**200,225**	**28,935**	**160,323**	**14,727**	**404,210**

The table below presents the value of collateral taken by the Bank when assessing the impairment of assets, in the amount not exceeding the carrying amount of the loan. For the purposes of impairment assessment the Bank does not take into account certain types of collateral, including trade receivables, inventory, movable property.

	31 December 2013	**31 December 2012**
Loans to corporate customers	33,329,390	29,595,959
Loans to individuals	469,795	552,539
Total	**33,799,185**	**30,148,498**

Impairment assessment

The main considerations for the loan impairment assessment is based on a determintation whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances (on a portfolio basis).

Geographical concentration

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

	31 December 2013			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	4,507,287	3,559,036	254,747	8,321,070
Mandatory reserves with the National Bank of Ukraine	740,957	-	-	740,957
Due from credit institutions	816,471	184,875	4,309	1,005,655
Loans to customers	41,624,936	7	-	41,624,943
Investment securities:				
- designated at fair value through profit or loss	3,540,585	-	-	3,540,585
- available-for-sale	29,575,699	-	-	29,575,699
- held-to-maturity	1,370,663	-	-	1,370,663
Other financial assets	38,513	1,465	65	40,043
	82,215,111	**3,745,383**	**259,121**	**86,219,615**
Liabilities:				
Amounts due to the National Bank of Ukraine	9,223,005	-	-	9,223,005
Amounts due to credit institutions	851,359	7,014,698	289,824	8,155,881
Amounts due to customers	40,516,826	139,672	804,542	41,461,040

(thousands of Ukrainian hryvnia, unless otherwise stated)

Eurobonds issued	-	13,519,313	-	13,519,313
Subordinated debt	-	3,112,441	-	3,112,441
Other financial liabilities	17,408	7,515	30	24,953
	50,608,598	**23,793,639**	**1,094,396**	**75,496,633**
Net position	**31,606,513**	**(20,048,256)**	**(835,275)**	**10,722,982**
Commitments and contingencies (Note 23)	**2,630,775**	**2,323**	**80**	**2,633,178**

	31 December 2012			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	3,521,642	15,382,175	293,479	19,197,296
Mandatory reserves with the National Bank of Ukraine	531,152	-	-	531,152
Due from credit institutions	895,465	241,470	4,352	1,141,287
Loans to customers	39,365,647	116	-	39,365,763
Investment securities:				
- designated at fair value through profit or loss	3,538,447	-	-	3,538,447
- available-for-sale	15,026,195	-	-	15,026,195
- held-to-maturity	1,372,237	-	-	1,372,237
Other financial assets	107,652	19	58	107,729
	64,358,437	**15,623,780**	**297,889**	**80,280,106**
Liabilities:				
Amounts due to the National Bank of Ukraine	7,824,914	-	-	7,824,914
Amounts due to credit institutions	1,197,784	5,349,669	696,847	7,244,300
Amounts due to customers	42,320,982	176,552	336,751	42,834,285
Eurobonds issued	-	8,554,063	-	8,554,063
Subordinated debt	-	3,106,645	-	3,106,645
Other financial liabilities	113,290	2,159	658	116,107
	51,456,970	**17,189,088**	**1,034,256**	**69,680,314**
Net position	**12,901,467**	**(1,565,308)**	**(736,367)**	**10,599,792**
Commitments and contingencies (Note 23)	**2,896,214**	**2,004**	**-**	**2,898,218**

Liquidity risk

The Bank considers liquidity risk as the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.
While managing liquidity risk, the Bank is considering a combination of the following:

- structural (short and long-term) assets and liabilities management focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- current (short-term) assets and liabilities management focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management is based on acceptable levels of maturity gaps (by currency) and on the following principles:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- permanent monitoring of actual key liquidity risk indicators;
- use of adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

Key liquidity risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU.

The liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	At 31 December 2013, %	***At 31 December 2012, %***
N4 "Instant Liquidity Ratio" (cash in hand and balances on nostro accounts with banks / balances on customers' current accounts) (minimum required by the NBU — 20%)	54.74	77.87
N5 "Current Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU — 40%)	98.42	90.68
N6 "Short-Term Liquidity Ratio" (cash in hand, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU — 60%)	97.47	95.61

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

Financial liabilities As at 31 December 2013	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***More than 5 years***	***Total***
Amounts due to the NBU	3,244,913	2,320,104	4,727,368	-	10,292,385
Amounts due to credit institutions	1,543,330	1,887,610	2,811,657	3,809,851	10,052,448
Amounts due to customers	29,836,490	11,678,062	992,033	51,958	42,558,543
Eurobonds issued	2,726,044	712,504	12,511,528	-	15,950,076
Subordinated debt	161,284	159,838	2,146,388	2,217,153	4,684,663
Other liabilities	24,953	-	-	-	24,953
Commitments and contigent financial liabilities	624,201	1,643,991	625,853	24,239	2,918,284
Total undiscounted financial liabilities	**38,161,215**	**18,402,109**	**23,814,827**	**6,103,201**	**86,481,352**

(thousands of Ukrainian hryvnia, unless otherwise stated)

Financial liabilities As at 31 December 2012	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***More than 5 years***	***Total***
Amounts due to the NBU	1,514,843	2,759,749	5,190,353	-	9,464,945
Amounts due to credit institutions	2,463,129	1,038,934	2,974,630	2,274,065	8,750,758
Amounts due to customers	33,683,057	8,578,896	1,411,062	21,511	43,694,526
Eurobonds issued	131,437	633,557	9,264,707	-	10,029,701
Subordinated debt	160,561	160,561	2,201,492	2,483,171	5,005,785
Other liabilities	116,107	-	-	-	116,107
Commitments and contigent financial liabilities	782,915	1,646,130	1,146,296	39,215	3,614,556
Total undiscounted financial liabilities	**38,852,049**	**14,817,827**	**22,188,540**	**4,817,962**	**80,676,378**

The above table shows the timing of expiry dates of committments and contingent financial liabilities of the Bank according to the respective agreements. The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Market risk management is performed by systematic combination of:

- interest risk management;
- foreign currency risk management.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.
Interest rate risk management is performed through a combination of:

- structural (strategic) and current (operational) management of interest-earning assets aimed at achieving acceptable structure and volume of interest income in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates;
- structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and volume of interest expenses in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates.

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key interest rate risk indicators;
- permanent monitoring of actual values of key interest rate risk indicators;
- taking efficient measures if the actual values of key interest rate risk indicators approach their critical and/or threshold levels.

(thousands of Ukrainian hryvnia, unless otherwise stated)

Key interest rate risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit and loss (consolidated income statement).

The sensitivity of the consolidated statement of profit and loss (consolidated income statement) reflects the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date.

			2013		
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	(12,062)	-100	12,064
USD	LIBOR	+75	(15,895)	-75	14,478
EUR	LIBOR	+75	115	-75	(115)
EUR	Euribor	+75	2,863	-75	(2,863)
Other	LIBOR	+75	341	-75	(340)
Other	Euribor	+75	1	-75	(1)
Total			**(24,637)**		**23,223**

			2012		
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	2,677	-100	(2,299)
USD	LIBOR	+75	(6,989)	-75	1,515
USD	NBU	+100	153	-100	(151)
EUR	LIBOR	+75	833	-75	(833)
EUR	Euribor	+75	3,751	-75	(4,374)
EUR	NBU	+100	339	-100	(339)
Other	LIBOR	+75	728	-75	(757)
Other	Euribor	+75	1	-75	(1)
Total			**1,493**		**(7,239)**

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December to assess the possible effects of the assumed changes in interest rates. For securities classified at the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified at the 3 level of the hierarchy - a method of yield curve, with the following assumptions: +/- 300 b.p. for corporate bonds, +/- 200 b.p. for Ukrainian state bonds denominated in local currency, +/- 100 b.p. for Ukrainian state bonds in USD, +/- 20% interest rate change for corporate bonds of the 3 level of hierarchy. As at December 31, the total effect of the changes on the Bank's equity is: UAH (597,858) thousand / UAH 597,858 thousand (2012: UAH (471,512) thousand / UAH 581,763 thousand).

Sensitivity of net profit / (loss) on investment securities designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit / (loss) as of 31 December in terms of effects of the assumed changes in interest rates using the method of modified duration. The effect of changes in interest rate of +/- 100 b.p. for Ukrainian state bonds on the Bank's income is UAH (106,890) thousand / UAH 106,890 thousand (2012: UAH (172,795) thousand / UAH 172,795 thousand).

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is performed through a combination of:

(thousands of Ukrainian hryvnia, unless otherwise stated)

- structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates;
- structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

Currency risk management is aimed at securing an excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- setting targets (optimal and acceptable to the Bank), critical (undesired but manageable) and threshold (urgent measures) values of key currency risk indicators;
- continuous monitoring of actual values of key currency risk indicators;
- taking efficient measures if the actual values of key currency risk indicators approach their critical and/or threshold values.

Key currency risk indicators, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2013 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 hryvnia, with all other variables held constant on the consolidated statement of profit and loss (consolidated income statement) (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss (consolidated income statement)or equity, while a positive amount reflects a net potential increase.

	2013		***2012***	
Currency	***Change in currency rate, %***	***Effect on profit before tax***	***Change in currency rate, %***	***Effect on profit before tax***
UAH/USD	+40.00%	173,727	+40.00%	(640,499)
UAH/EUR	+40.00%	(376,760)	+40.00%	(379,632)
Total		**(203,033)**		**(1,020,131)**
UAH/USD	-30.00%	904,705	-30.00%	1,515,374
UAH/EUR	-30.00%	282,570	-30.00%	284,724
Total		**1,187,275**		**1,800,098**

Offsetting financial assets and financial liabilities

As at 31 December 2013 repurchase contracts in the amount of UAH 2,108,803 thousand (31 December 2012: UAH 1,415,261 thousand) include loans from the National Bank of Ukraine, which fall under the enforceable master netting or similar arrangement.

27. Transfers of financial assets

Transfers that did not qualify for derecognition of the financial asset in its entirety

Sale and repurchase transactions

As at 31 December 2013 the Bank has investment securities designated at fair value through profit or loss, which are respresented by government bonds, in the carrying amount of UAH 307,463 thousand (31 December 2012: UAH 1,434,482 thousand) and investment securities available for sale which are represented by government securities with carrying value of UAH 1,836,421 thousand (31 December 2012: nil) in respect of which the Bank has an obligation to repurchase for a predetermined fixed price. Information on the book value of liabilities in respect of sale and repurchase transactions is disclosed in Note 10 and Note 17.

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2013		**31 December 2012**	
	Carrying amount of assets	Carrying amount of liabilities	Carrying amount of assets	Carrying amount of liabilities
Investment securities designated at fair value through profit or loss:				
Government bonds	307,463	301,913	1,434,482	1,415,261
Investment securities available for sale:				
Government bonds	1,836,421	1,806,890	-	-
Total	**2,143,884**	**2,108,803**	**1,434,482**	**1,415,261**

28. Fair values of assets and liabilities

Fair value measurement procedures

For unquoted trading and available-for-sale securities and unquoted derivatives the fair value measurements are based on the accounting policies of the Bank and approved procedures of the securities portfolio management The fair values are calculated regularly using key inputs of previous measurements and other relevant information as appropriate. Securities are revalued on a monthly basis and approved by the Bank's Credit Committee.

The Bank tests the fair values of investment properties and buildings twice a year by engaging domestic professionally qualified valuers that have extensive and relevant valuation expertise. The decision on revaluation of investment properties and buildings is made by the Board of Directors based on an evaluation of the fair value of investment properties compared to their carrying amount, and whether the fair value of buildings significantly differs from their carrying amount. The investment properties and buildings are valued by external independent appraisers that are accredited with the Bank and have the market knowledge, good reputation and adhere to the principles of independence and professional standards according to the decision made by the Board of Directors.

Levels of the fair value hierarchy

For the purposes of disclosing the information about fair value, the Bank classifies the assets and liabilities based on the nature, characteristics and risks of an asset or liability and the levels of the fair value hierarchy as shown below:

		Fair value measurement applied			
	Valuation date	***Quoted market prices (Level 1)***	***Valuation based on assumptions confirmed by observable data (Level 2)***	***Valuation based on assumptions not confirmed by observable data (Level 3)***	***Total***
Assets measured at fair value					
Current accounts with other credit institutions in precious metals	31/12/2013	-	123,603	-	123,603
Investment securities designed at fair value through profit or loss:					
Ukrainian state bonds	31/12/2013	-	3,540,585	-	**3,540,585**
Available-for-sale investment securities:					
Ukrainian state bonds	31/12/2013	-	17,892,254	-	**17,892,254**
Corporate bonds	31/12/2013	-	8,416,862	-	**8,416,862**
Municipal bonds	31/12/2013	-	3,249,315	-	**3,249,315**
Corporate shares	31/12/2013	-	-	17,268	**17,268**
Investment property	01/10/2013	-	-	3,666,666	**3,666,666**
Buildings	01/07/2012	-	-	1,915,897	**1,915,897**

(thousands of Ukrainian hryvnia, unless otherwise stated)

Liabilities measured at fair value					
Due to customers	31/12/2013	-	103,749	-	**103,749**
Assets for which fair value is disclosed					
Cash and cash equivalents	31/12/2013	2,836,982	5,484,088	-	**8,321,070**
Mandatory reserves with the National Bank of Ukraine	31/12/2013	740,957	-	-	**740,957**
Amounts due from credit institutions	31/12/2013	-	882,052	-	**882,052**
Loans to customers	31/12/2013	-	-	39,896,462	**39,896,462**
Securities held to maturity	31/12/2013	-	1,309,091	74,348	**1,383,439**
Other assets	31/12/2013	-	40,043	-	**40,043**
Liabilities for which fair value is disclosed					
Amounts due to the National Bank of Ukraine	31/12/2013	-	9,223,005	-	**9,223,005**
Amounts due to credit institutions	31/12/2013	-	8,155,881	-	**8,155,881**
Amounts due to customers	31/12/2013	-	41,230,045	-	**41,230,045**
Eurobonds issued	31/12/2013	12,958,509	-	-	**12,958,509**
Subordinated debt	31/12/2013	882,077	2,097,401	-	**2,979,478**
Other liabilities	31/12/2013	-	24,953	-	**24,953**

Levels of hierarchy for financial instruments measured at fair value as at 31 December 2012

At 31 December 2012	***Level 2***	***Level 3***	***Total***
Financial assets			
Current accounts with other credit institutions in precious metals	191,529	-	**191,529**
Investment securities designed at fair value through profit or loss:			
Ukrainian state bonds	3,538,447	-	**3,538,447**
Available-for-sale investment securities:			
Corporate bonds	5,673,274	867,241	**6,540,515**
Ukrainian state bonds	5,220,455	-	**5,220,455**
Municipal bonds	3,247,957	-	**3,247,957**
Corporate shares	-	17,268	**17,268**
	17,871,662	**884,509**	**18,756,171**

As at 31 December 2012 the fair value of term deposits of legal entities and individuals denominated in gold amounted to 172,717 thousand and related to the second level hierarchy financial instruments.

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

Set out below is a 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 (balance sheet). The table does not include the fair values of non-financial assets and non-financial liabilities.

(thousands of Ukrainian hryvnia, unless otherwise stated)

	31 December 2013			*31 December 2012*		
	Carrying value	***Fair value***	***Unrecognised gain / (loss)***	***Carrying value***	***Fair value***	***Unrecognised gain / (loss)***
Financial assets						
Cash and cash equivalents	8,321,070	8,321,070	-	19,197,296	19,197,296	-
Mandatory reserves with the National Bank of Ukraine	740,957	740,957	-	531,152	531,152	-
Amounts due from credit institutions	882,052	882,052	-	949,758	949,758	-
Loans to customers	41,624,943	39,896,462	(1,728,481)	39,365,763	36,852,559	(2,513,204)
Securities held to maturity	1,370,663	1,383,439	12,776	1,372,237	1,372,237	-
Other assets	40,043	40,043	-	107,729	107,729	-
Financial liabilities						
Amounts due to the National Bank of Ukraine	9,223,005	9,223,005	-	7,824,914	7,824,914	-
Amounts due to credit institutions	8,155,881	8,155,881	-	7,244,300	7,244,300	-
Amounts due to customers	41,357,291	41,230,045	127,246	42,661,568	42,495,759	165,809
Eurobonds issued	13,519,313	12,958,509	560,804	8,554,063	8,241,719	312,344
Subordinated debt	3,112,441	2,979,478	132,963	3,106,645	2,967,862	138,783
Other liabilities	24,953	24,953		116,107	116,107	-
Total unrecognized change in unrealized fair value			**(894,692)**			**(1,896,268)**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Investment securities designated at fair value through profit or loss and investment securities available for sale (excluding shares), are valued using market quotes. Securities available for sale which are valued using a valuation technique or pricing models primarily consist of shares. These securities are valued using models utilising data which is not based on the market observations. The non observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates, level of enterprise goodwill, its management and founders/ shareholders.

Investment property

The highest and best use method specifies that the market value of the real estate property is based on its highest and best use which creates the highest value for the property. Only asset utilisations that are technically feasible, permissible and economically justifiable are considered.

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Other valuation principles are used in line with the selected valuation approaches subject to the provisions of the national standard №1 "General Principales of valuation of property and property rights", approved by the Cabinet Ministers of Urkarine № 1440 from 10/09/2003.
Land plots are valued by applying the sales comparison approach.
Real estate is valued using either the comparative or income approach (based on the principle of expected future benefits from the use of a valued item) subject to the availability of market information and best use.
Real estate properties specialised in nature (engineering structures) are valued using the cost approach (by calculating the replacement cost of similar property taking into account further depreciation of a valued item).

Buildings

The fair value of buildings was measured mainly using the comparative approach and in certain cases by applying either or both of the cost and income approach.

Movements in level 3assets measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which is recorded at fair value:

		Total gain / (loss) recorded in						
	At 01 January 2013	***statement of profit and loss (income statement)***	***other comprehensive income***	***Purchases***	***Settlements***	***Transfers to Level 3***	***Transfers from Level 3***	***At 31 December 2013***
Available-for-sale investment securities	884,509	1,403,588[(a)]	(1,794)	4,158,569	(5,832,689)[(b)]	19,120,510	(19,715,425)	17,268
Investment property	3,707,841	(34,614)	-	-	(6,561)	-	-	3,666,666
Buildings	1,925,810	(30,975)	-	21,062	-	-	-	1,915,897
Total assets	**6,518,160**	**1,337,999**	**(1,794)**	**4,179,631**	**(5,839,250)**	**19,120,510**	**(19,715,425)**	**5,599,831**

		Total gain / (loss) recorded in					
	At 01 January 2012	***statement of profit and loss (income statement)***	***other comprehensive income***	***Purchases***	***Settlements***	***Transfers to Level 1***	***At 31 December 2012***
Available-for-sale investment securities	867,906	102,116[(a)]	(50,997)	879,273	(109,991)[(b)]	(803,798)	884,509
Total assets	**867,906**	**102,116**	**(50,997)**	**879,273**	**(109,991)**	**(803,798)**	**884,509**

[(a)] UAH 1,537,484 thousand of gain is included within interest income from investment securities other than designated at fair value through profit or loss and UAH 133,896 thousand of loss is included in reversal of losses/(losses) on impairment (2012: UAH 105,531 thousand of gain is included within interest income from investment securities other than designated at fair value through profit or loss and UAH 3,415 thousand of loss is included in reversal of losses/(losses) on impairment).

[(b)] UAH 5,832,689 thousand of settlements comprise: UAH 3,717,211 thousand of sales and UAH 2,115,478 thousand of repayments (2012: UAH 109,991 thousand comprised: UAH 7,230 thousand of sales and UAH 102,761 thousand of repayments).

During 2013, the Bank transferred certain financial assets from level 2 to level 3 of the fair value hierarchy. The carrying amounts of assets transferred to level 3 was UAH 19,120,510 thousand. The reason for the transfers of financial assets from level 2 to level 3 is that the market for certain securities has become illiquid, which led to a change in the method of determining fair value.

(thousands of Ukrainian hryvnia, unless otherwise stated)

During 2013, the Bank transferred certain financial assets from level 3 to level 2 of the fair value hierarchy. The carrying amounts of assets transferred to level 2 was UAH 19,715,425 thousand. The reason for the transfers of financial assets from level 3 to level 2 is that the market for certain securities has become sufficiently liquid in the second half of 2013, which led to change in the method used to determine fair value.

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2013		
	Realised gains	***Unrealised gains/(losses)***	***Total***
Investment securities available for sale	1,372,818	30,770	**1,403,588**
Investment property	-	(34,614)	**(34,614)**
Buildings	-	(30,975)	**(30,975)**
Total	**1,372,818**	**(34,819)**	**1,337,999**

	2012		
	Realised gains	***Unrealised gains***	***Total***
Investment securities available for sale	100,728	1,388	**102,116**

The table below shows the quantitative information as at 31 December 2013 about significant unobservable inputs used for the fair valuation of assets classified as those of the 3 level of the fair value hierarchy.

At 31 December 2013	***Carrying value***	***Valuation technique***	***Unobservable parameter***	***Range of parameter values***
Available-for-sale investment securities	17,268	Discounted cash flows	Expected profitability Risk factor	Corporate: 1.07% - 28.39%. Corporate: 0 – 1,0
Investment property:				
- real estate	1,497,533	Comparative	Sqm	UAH 1 thousand – UAH 83 thousand
- land	2,169,133	Comparative	Are	UAH 4 thousand – UAH 1,623 thousand
Buildings:				
- real estate	1,914,466	Comparative	Sqm	UAH 1 thousand – UAH 51 thousnad
- land	1,431	Comparative	Are	UAH 40 thousand- UAH 142 thousand

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions as at 31 December 2012:

	Carrying value	***Influence of possible alternative assumptions***
Available-for-sale investment securities	884,509	(24,252)

In order to determine the fair value of assets in the absence of consistent market observable input parameters the following internal assumptions were adopted: :

- For equities, the Bank adjusted the assumptions as to the possibility of bankruptcy or losses that were used to determine the credit component in fair value. The adjustment made was to increase the assumption up to 100% subject to individual characteristics of the investee;

(thousands of Ukrainian hryvnia, unless otherwise stated)

- For debt securities, the Bank adjusted the probability of changes in interest rate assumption applied for discounting cash flows from debt securities within the range of +/- 10% (2012: +/- 30%) of the level as at the end of the reporting period.
- For Ukrainian state bonds, the Bank made an assumption under the terms and conditions of bond issue that allow the Bank to call for early redemption (within 20 days from the date of claim) at their nominal value. It makes the influence of possible alternative assumptions on the carrying amount insignificant.

29. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "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***
Assets						
Cash and cash equivalents	8,321,070	-	8,321,070	19,197,296	-	19,197,296
Mandatory reserves with the National Bank of Ukraine	740,957	-	740,957	531,152	-	531,152
Due from credit institutions	232,665	772,990	1,005,655	331,448	809,839	1,141,287
Loans to customers	13,115,568	28,509,375	41,624,943	15,781,729	23,584,034	39,365,763
Investment securities:						
- designated at fair value through profit or loss	80,979	3,459,606	3,540,585	80,134	3,458,313	3,538,447
- available-for-sale	13,903,417	15,672,282	29,575,699	6,049,514	8,976,681	15,026,195
- held-to-maturity	405,998	964,665	1,370,663	55,546	1,316,691	1,372,237
Tax assets	-	639,420	639,420	492,257	-	492,257
Investment property	-	3,666,666	3,666,666	-	3,707,841	3,707,841
Property and equipment	-	2,272,163	2,272,163	-	2,277,255	2,277,255
Intangible assets	-	14,696	14,696	-	10,770	10,770
Deferred income tax assets	-	82,963	82,963	-	85,216	85,216
Other assets	419,289	-	419,289	460,369	-	460,369
Total	**37,219,943**	**56,054,826**	**93,274,769**	**42,979,445**	**44,226,640**	**87,206,085**
Liabilities						
Amounts due to the National Bank of Ukraine	5,131,157	4,091,848	9,223,005	3,796,373	4,028,541	7,824,914
Amounts due to credit institutions	3,105,994	5,049,887	8,155,881	3,242,884	4,001,416	7,244,300
Amounts due to customers	40,529,008	932,032	41,461,040	41,582,991	1,251,294	42,834,285
Eurobonds issued	2,781,100	10,738,213	13,519,313	198,327	8,355,736	8,554,063
Subordinated debt	135,725	2,976,716	3,112,441	135,002	2,971,643	3,106,645
Current income tax liabilities	32,703	-	32,703	13,243	-	13,243
Provisions to cover other losses	-	-	-	-	-	-
Other liabilities	159,065	-	159,065	248,151	-	248,151
Total	**51,874,752**	**23,788,696**	**75,663,448**	**49,216,971**	**20,608,630**	**69,825,601**
Net amount	**(14,654,809)**	**32,266,130**	**17,611,321**	**(6,237,526)**	**23,618,010**	**17,380,484**

The maturity analysis does not reflect the historical stability of current accountsIn the table above current accounts are reflected in the Amount due to customers in “Within one year” maturity bucket. It should be noted that historically substantial portion of funds have remained on the current accounts for periods longer than one year. The category Amounts due to customers includes term deposits of individuals in accordance with their contractual maturity dates. However, under Ukrainian legislation the Bank is obliged to repay such deposits upon the demand of a depositor. The Bank expects that a significant portion of the customers will not request early repayment and expects that a substantial portion of deposits will be rolled over.

(thousands of Ukrainian hryvnia, unless otherwise stated)

30. Presentation of Financial Instruments by Measurement Category

Assets by measurement categories as at 31 December 2013:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through the gain or loss*	*Total*
Cash and cash equivalents	8,321,070	-	-	8,321,070
Mandatory reserves with the National Bank of Ukraine	740,957	-	-	740,957
Due from credit institutions	882,052	-	123,603	1,005,655
Loans to customers	41,624,943	-	-	41,624,943
Investment securities:				
- designated at fair value through profit or loss	-	-	3,540,585	3,540,585
- available-for-sale	-	29,575,699	-	29,575,699
- held-to-maturity	1,370,663	-	-	1,370,663
Other assets	40,043	-	-	40,043
Total	**52,979,728**	**29,575,699**	**3,664,188**	**86,219,615**

Assets by measurement categories as at 31 December 2012:

	Loans and receivables	*Assets available for sale*	*Assets at fair value through the gain or loss*	*Total*
Cash and cash equivalents	19,197,296	-	-	19,197,296
Mandatory reserves with the National Bank of Ukraine	531,152	-	-	531,152
Due from credit institutions	949,758	-	191,529	1,141,287
Loans to customers	39,365,763	-	-	39,365,763
Investment securities:				
- designated at fair value through profit or loss	-	-	3,538,447	3,538,447
- available-for-sale	-	15,026,195	-	15,026,195
- held-to-maturity	1,372,237	-	-	1,372,237
Other assets	107,729	-	-	107,729
Total	**61,523,935**	**15,026,195**	**3,729,976**	**80,280,106**

As at 31 December 2013 and 31 December 2012, all financial liabilities of the Bank were carried at amortized cost, except for deposits in gold, which belong to the fair value through profit or loss measurement category .

31. 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 transactions which unrelated parties might not. The terms and conditions of such transactions may differ from those between unrelated parties.

Transactions and balances with related parties comprise transactions with Ukrainian government-related entities (both directly and indirectly controlled by and under significant influence of the Government) and key management personnel.

The outstanding balances of key management personnel as at 31 December 2013 and 2012, and related income and expense for the years ended 31 December 2013 and 2012, are as follows:

(thousands of Ukrainian hryvnia, unless otherwise stated)

	At 31 December 2013	At 31 December 2012
	Key management personnel	Key management personnel
Loans to customers, gross	-	458
Less: allowance for impairment	-	-
Loans to customers, net	**-**	**458**
Current accounts	3,606	3,959
Time deposits	26,931	24,945
Amounts due to customers	**30,537**	**28,904**

	2013	2012
	Key management personnel	Key management personnel
Interest income on loans	15	38
Interest expense on customers' deposits	(1,434)	(3,101)
Commission income	-	2
Translation differences	119	140

The aggregate remuneration and other benefits paid to key management personnel for the year ended 31 December 2013 is UAH 36,702 thousand (UAH 431 thousand payment to non-state pension fund) (for the year ended 31 December 2012: UAH 38,232 thousand (UAH 507 thousand payment to non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of the Ukraine and entities controlled or significantly influenced by it. The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, operation with securities, cash and settlement transaction.

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2013 are disclosed below:

Client	***Sector***	***Cash and cash equivalents***	***Mandatory reserves with the National Bank of Ukraine***	***Loans to customers***	***Amounts due to customers***	***Amounts due to NBU***	***Guarantees issued***
Client 1	State entities	-	-	-	1,340,349	-	-
Client 2	Finance	1,859,739	740,957	-	-	9,223,005	-
Client 3	Finance	1,144,674	-	-	-	-	-
Client 4	Finance	239,939	-	-	-	-	-
Client 5	Agriculture and food industry	-	-	-	9,213,268	-	-
Client 6	Extractive industry	-	-	3,538,959	-	-	-
Client 7	Extractive industry	-	-	-	-	-	43,158
Client 8	Road construction	-	-	2,077,848	-	-	-
Client 9	Trade	-	-	765,285	-	-	-
Client 10	Trade	-	-	-	-	-	722,803
Client 11	Trade	-	-	-	-	-	290,895
Client 12	Power engineering	-	-	919,947	-	-	-
Client 13	Transport and communications	-	-	417,453	330,474	-	-
Client 14	Mechanical engineering	-	-	439,326	-	-	145,980
Other	-	-	-	816,677	2,350,579	-	-

(thousands of Ukrainian hryvnia, unless otherwise stated)

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2012 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Mandatory reserves with the National Bank of Ukraine*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Guarantees issued*
Client 1	State entities	-	-	-	3,313,916	-	-
Client 5	Agriculture and food industry	-	-	-	11,989,746	-	-
Client 2	Finance	1,629,018	531,152	-	-	7,824,914	-
Client 4	Finance	520,540	-	-	-	-	-
Client 6	Extractive industry	-	-	4,217,039	-	-	-
Client 10	Trade	-	-	-	-	-	1,215,755
Client 9	Trade	-	-	978,490	-	-	-
Client 11	Trade	-	-	-	-	-	467,273
Client 8	Road construction	-	-	2,109,805	-	-	-
Client 13	Transport and communications	-	-	558,002	867,968	-	-
Client 15	Transport and communications	-	-	455,781	-	-	-
Client 14	Mechanical engineering	-	-	432,207	-	-	283,968
Client 16	Mechanical engineering	-	-	594,421	-	-	-
Client 12	Power engineering	-	-	1,037,531	-	-	-
Other	-	-	-	475,833	2,411,033	-	-

For the twelve-month period ended 31 December 2013, the Bank recorded UAH 1,414,851 thousand of interest income (for the twelve month period ended 31 December 2012: UAH 1,626,764 thousand) and UAH 1,317,783 thousand of interest expenses (for the twelve months period ended 31 December 2012: UAH 755,026 thousand) from significant transactions with the government-related entities.

As at 31 December 2013 and 2012, the Bank's investments in debt securities issued by the government or the government-related corporate entities were as follows:

	2013	*2012*
Available-for-sale investment securities	22,516,236	8,447,202
Investment securities designed at fair value through profit or loss	3,540,585	3,538,447
Investment securities held to maturity	1,297,814	1,299,270

Carrying value of government bonds, which are included in investment securities designated at fair value through profit or loss and investment securities available for sale is disclosed in Note 10.

For the twelve-month period ended 31 December 2013, the Bank recorded UAH 1,685,860 thousand (for the twelve-month period 2012: UAH 887,878 thousand) of interest income from transactions with government bonds, and UAH 844,188 thousand from transactions with other investment securities (for the twelve-month period 2012: 186,269) of interest income.

32. Capital adequacy

The Bank pro-actively manages its exposures to ensure it that it maintains an adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

(thousands of Ukrainian hryvnia, unless otherwise stated)

During 2013 and 2012, the Bank had 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 externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business activities..
The Bank manages its capital structure and adjusts its total assets to provide for observed and expected changes in the business environment and the risk profile of its business activities.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of the amount of risk-weighted assets, computed in accordance with the NBU regulations.

As at 31 December the Bank's regulatory capital adequacy ratio on this basis was as follows:

	2013	***2012***
Main capital	16,270,250	16,215,227
Additional capital	3,630,918	3,774,770
Less: deductions from capital	-	-
Total capital	**19,901,168**	**19,989,997**
Risk weighted assets	**68,770,702**	**69,387,486**
Capital adequacy ratio	28.94%	28.81%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses and Tier 2 capital (Additional capital), consisting of provisions against highest quality credit operations, asset revaluation reserve, current year profit, subordinated debt and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratios, computed in accordance with the Basel Capital Accord 1988 were as follows:

	2013	***2012***
Tier 1 capital	16,636,860	16,465,851
Tier 2 capital	3,372,361	3,512,358
Total capital	**20,009,221**	**19,978,209**
Risk weighted assets	**70,195,947**	**71,448,759**
Tier 1 capital ratio	23.70%	23.05%
Total capital ratio	28.50%	27.96%

33. Subsequent events

On 3 February 2014 the Bank made a timely repayment of the Eurobonds issued in February 2011 in the form of deposit linked bonds using BIZ Finance PLC, with a total nominal value of UAH 2,385,050 thousand.

After the end of the reporting period certain events occurred that potentially increase the risk of the operating environment and which may lead to a contraction in the economy. This includes an increase in the volatility of financial markets, a severe depreciation of the national currency against major foreign currencies, the downgrade of the Ukrainian sovereign debt ratings by international rating agencies in January - February 2014 with negative outlooks, and the deteriorating relationship with Russia who is an important trading partner of Ukraine. All these factors may contribute to a deterioration in the asset quality of the Bank.