Public Joint Stock Company
"BTA Bank" (Ukraine)
IFRS Financial Statements

For the year ended 31 December 2013
together with Independent auditors' report

CONTENTS

INDEPENDENT AUDITORS' REPORT

Statement of financial position 1
Income statement 2
Statement of comprehensive income 3
Statement of changes in equity 4
Statement of cash flows 5

NOTES TO THE FINANCIAL STATEMENTS

1. Principal activities 6
2. Operating environment in Ukraine 6
3. Basis of preparation 7
4. Summary of significant accounting policies 7
5. Significant accounting judgements and estimates 17
6. Cash and cash equivalents 17
7. Amounts due from credit institutions 18
8. Derivative financial instruments 18
9. Loans to customers 18
10. Financial assets available-for-sale 20
11. Investment property 20
12. Property and equipment and intangible assets 21
13. Assets held-for-sale 22
14. Taxation 23
15. Other assets and liabilities 24
16. Other impairment allowance and provisions 25
17. Amounts due to credit institutions 25
18. Amounts due to customers 26
19. Equity 26
20. Commitments and contingencies 28
21. Net fee and commission income 29
22. Salaries and other operating expenses 29
23. Financial risk management 29
24. Fair value measurements 38
25. Maturity analysis of assets and liabilities 41
26. Related party transactions 42
27. Capital adequacy 43

Building a better
working world

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

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

INDEPENDEDNT AUDITORS' REPORT (AUDIT OPINION)

To the Shareholders and Supervisory Board of PUBLIC JOINT-STOCK COMPANY "BTA BANK"

Report on the Financial Statements of PUBLIC JOINT STOCK COMPANY "BTA BANK"

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY "BTA BANK" ("the Bank") (code ERDPU – 14359845; actual address – 01032, 75 Zhylianska Str., Kyiv, Ukraine; date of state registration – 10 December 1992), which comprise the statement of financial position as at 31 December 2013, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Basis for qualified opinion

As at 31 December 2013, investment properties include non-residential properties with the fair value of UAH 95,303 thousand, determined by independent appraisers. The valuation of these properties was based on comparative approach. We were unable to satisfy ourselves as to the comparability of analogues and appropriateness of approach used by the independent appraisers. Consequently, we were unable to determine whether any adjustments to the fair value of the non-residential properties were necessary.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of PUBLIC JOINT STOCK COMPANY "BTA BANK" as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Report on Other Legal and Regulatory Requirements

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

1) Section 3 of Article 155 of the Civil Code of Ukraine requires net assets of a joint stock company as at the end of the second annual reporting period from the inception and all subsequent reporting periods be in excess of its statutory capital. The Bank's net assets as at 31 December 2013 are UAH 1,489,156 thousand, which is less than its registered statutory capital as at the respective date, but higher than the minimum registered statutory capital established by the effective law.

2) The other information disclosed by the Bank in its annual report of the issuer of securities was not available at the time the financial statements were approved for issuance by the Bank's management. Consequently, we were not able to read this other information and do not report on inconsistencies between the accompanying financial statements and the annual report of the issuer of securities.

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

4) The Law requires joint stock companies developing the principles (code) of corporate governance, and requires establishing a supervisory committee and an audit committee. The Bank has established the principles (code) of corporate governance approved by the General Shareholders' Meeting decision dated 7 July 2011, the Supervisory Board according to the General Shareholders' Meeting decision dated 24 September 1992, the Internal Audit Department according to the decision of the Bank's Board dated 15 June 2004. We could not assess the effectiveness of the Bank's corporate governance as to compliance with the Law, because no clear criteria for standards of corporate governance are established by the Law or other regulations. Accordingly, we do not express an opinion as to the effectiveness of the Bank's corporate governance.

Building a better working world

5) In the course of our audit of the financial statements of the Bank, we have assessed the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control, including controls designed to prevent and detect fraud. Accordingly, we do not express such an opinion.

Other Matters – Contractual arrangements and timing of the audit

We have been engaged by the Bank and concluded an agreement No. GFS-2013-00244 dated 7 October 2013. Our audit of the financial statements of the Bank has been performed during the period from 28 October 2013 to 26 March 2014.

м. Київ * Україна * Товариство з обмеженою відповідальністю «Ернст енг Янг Аудиторські Послуги» Ідентифікаційний код 33306921

Svisitch O.M.
General Director

Studynska Y.S.
Partner

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

Certificate on inclusion in the National Bank of Ukraine register of banking auditors No. 0000111

26 March 2014
Kyiv, Ukraine

STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

(Thousands of Ukrainian hryvnia)

	Notes	*2013*	*2012 (reclassified)*	*2011 (reclassified)*
Assets				
Cash and cash equivalents	6	380,650	542,922	584,212
Obligatory reserve deposit with the NBU	7	32,405	19,196	25,252
Amounts due from credit institutions	7	703,454	403,709	148,913
Derivative financial assets	8	3	216	12,060
Loans to customers	9	765,849	1,091,338	1,970,443
Financial assets available-for-sale	10	305,993	70,385	35,216
Investment property	11	358,330	435,440	405,732
Property and equipment	12	32,250	736,898	95,225
Intangible assets	12	198	596	1,362
Assets held-for-sale	13	16,027	25,374	42,794
Deferred income tax assets	14	4,643	8,266	12,266
Current income tax assets		1,989	29	711
Other financial assets	15	323	1,348	4,898
Other non-financial assets	15	170,920	188,632	63,263
Total assets		4,774,034	3,524,349	3,402,347
Liabilities				
Amounts due to credit institutions	17	1,904,401	757,355	269,240
Derivative financial liabilities	8	65	973	7,966
Amounts due to customers	18	1,357,034	1,401,915	1,542,411
Current income tax liabilities		-	332	-
Other financial liabilities	15	506	6,637	1,531
Other non-financial liabilities	15	22,872	16,567	7,308
Total liabilities		3,284,878	2,183,779	1,828,456
Equity				
Share capital		1,508,983	1,508,983	1,508,983
Additional paid-in capital		9,240	9,240	9,240
Retained earnings/(Accumulated losses)		(49,779)	(215,827)	22,427
Reserve and other funds		-	33,093	28,318
Other reserves	19	20,712	5,081	4,923
Total equity		1,489,156	1,340,570	1,573,891
Total liabilities and equity		4,774,034	3,524,349	3,402,347

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

N. V. Sergeeva — Chairlady of the Board

O. V. Latun — Chief Accountant

26 March 2014

INCOME STATEMENT
for the year ended 31 December 2013

(Thousands of Ukrainian hryvnia)

	Notes	2013	2012
Interest income			
Loans to customers		190,210	249,850
Amounts due from credit institutions		21,521	3,605
Financial assets available-for-sale		17,131	3,951
		228,862	257,406
Interest expense			
Amounts due to customers		(133,861)	(144,514)
Amounts due to credit institutions		(43,805)	(29,915)
		(177,666)	(174,429)
Net interest income		51,196	82,977
Charge for allowance for impairment of interest earning assets	7, 9	(7,158)	(368,441)
Net interest income after impairment of interest earning assets		44,038	(285,464)
Fee and commission income		15,407	16,509
Fee and commission expense		(4,280)	(4,112)
Net fee and commission income	21	11,127	12,397
Trading gains less losses from dealing with financial assets available-for-sale		21	(2,319)
Impairment of financial assets available-for-sale	10	-	(3,639)
Net gain/(loss) from foreign currencies:			
- dealing		6,288	17,867
- translation differences		(8,918)	(1,455)
Result from collateral repossession	22	-	149,552
Gain on extinguishment of financial liability due to substantial modification of terms	17	177,672	-
Other income		109,757	85,251
Non-interest income		284,820	245,257
Personnel expenses	22	(63,075)	(70,168)
Depreciation and amortisation	12	(17,896)	(33,303)
Other operating expenses	22	(122,158)	(91,615)
Charge for other allowances for impairment and provisions	16	(2,092)	(5,730)
Non-interest expense		(205,221)	(200,816)
Profit / (Loss) before income tax expense		134,764	(228,626)
Income tax expense	14	(1,940)	(4,984)
Profit / (Loss) for the year		132,824	(233,610)
Earnings / (Loss) for the year per ordinary share, basic (expressed in UAH per share)		6.64	(11.68)
Earnings / (Loss) for the year per ordinary share, diluted (expressed in UAH per share)		6.64	(11.68)

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

N. V. Sergeeva — Chairlady of the Board

O. V. Latun — Chief Accountant

26 March 2014

УКРАЇНА
м. КИЇВ
ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО
БТА БАНК
Ідентифікаційний код 14359845

The accompanying notes on pages 6 to 44 are the integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

(Thousands of Ukrainian hryvnia)

	Notes	2013	2012
Profit / (Loss) for the year		132,824	(233,610)
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net unrealised losses on financial assets available-for-sale	19	425	(5,601)
Losses on financial assets available-for-sale reclassified to the income statement on impairment	10	-	3,639
Realised (gains) / losses on financial assets available-for-sale reclassified to the income statement		(21)	2,319
Income tax relating to components of other comprehensive income		(8)	(68)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		396	289
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of buildings		18,415	-
Income tax relating to components of other comprehensive income		(3,049)	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		15,366	-
Other comprehensive income for the year, net of tax		15,762	289
Total comprehensive income / (loss) for the year		148,586	(233,321)

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

N. V. Sergeeva — Chairlady of the Board

O. V. Latun — Chief Accountant

26 March 2014

М. КИЇВ * УКРАЇНА * ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО
БТА БАНК
Ідентифікаційний код 14359845

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

(Thousands of Ukrainian hryvnia)

	Share capital	*Additional paid-in capital*	*Other reserves (Note 19)*	*Reserve and other funds (Note 19)*	*Retained earnings / (Accumu-lated losses)*	*Total*
31 December 2011 (as previously reported)	1,508,983	9,240	4,007	28,318	23,343	1,573,891
Reclassification (Note 3)	-	-	916	-	(916)	-
31 December 2011 (reclassified)	1,508,983	9,240	4,923	28,318	22,427	1,573,891
Total comprehensive income for the year	-	-	289	-	(233,610)	(233,321)
Distribution to reserve and other funds	-	-	-	4,775	(4,775)	-
Depreciation of revaluation reserve, net of tax	-	-	(131)	-	131	-
31 December 2012 (reclassified)	1,508,983	9,240	5,081	33,093	(215,827)	1,340,570
Total comprehensive income for the year	-	-	15,762	-	132,824	148,586
Cover for losses of previous periods	-	-	-	(33,093)	33,093	-
Depreciation of revaluation reserve, net of tax	-	-	(131)	-	131	-
31 December 2013	1,508,983	9,240	20,712	-	(49,779)	1,489,156

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

N. V. Sergeeva Chairlady of the Board

O. V. Latun Chief Accountant

26 March 2014

The accompanying notes on pages 6 to 44 are the integral part of these financial statements

CASH FLOW STATEMENT
for the year ended 31 December 2013

(Thousands of Ukrainian hryvnia)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		218,568	225,842
Interest paid		(149,409)	(148,624)
Fees and commissions received		14,448	16,509
Fees and commissions paid		(4,285)	(3,546)
Realised gains less losses from dealing in foreign currencies		13,032	26,190
Other operating income received		108,745	84,492
Personnel expenses paid		(62,931)	(70,413)
Other operating expenses paid		(119,696)	(89,739)
Income tax paid		(3,666)	(38)
Cash flows from operating activities before changes in operating assets and liabilities		14,806	40,673
Net (increase)/decrease in operating assets			
Mandatory reserve balances with the National Bank of Ukraine		(13,210)	6,057
Amounts due from credit institutions		(990,386)	(238,285)
Loans to customers		87,654	238,250
Other assets		10,981	3,739
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		1,008,446	224,743
Amounts due to customers		(54,389)	(144,962)
Other liabilities		313	12,328
Net cash from operating activities		64,215	142,543
Cash flows from investing activities			
Purchase of financial assets available-for-sale		(2,495,440)	(141,713)
Proceeds from sale of financial assets available-for-sale		2,261,588	102,586
Purchase of investment property		(1,496)	(121)
Proceeds from sale of investment property		783	-
Purchase of intangible assets		(195)	(161)
Purchase of property and equipment		(1,400)	(3,710)
Proceeds from sale of property and equipment		1,468	133
Proceeds from sale of intangible assets		-	65
Proceeds from sale of assets held-for-sale		7,345	2,062
Payments for collateral repossession		-	(151,455)
Net cash used in investing activities		(227,347)	(192,314)
Effect of exchange rate changes on cash and cash equivalents		860	8,481
Net increase in cash and cash equivalents		(162,272)	(41,290)
Cash and cash equivalents, 1 January		542,922	584,212
Cash and cash equivalents, 31 December	6	380,650	542,922

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

N. V. Sergeeva — Chairlady of the Board

O. V. Latun — Chief Accountant

26 March 2014

М. КИЇВ * УКРАЇНА * ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО
БТА БАНК
Ідентифікаційний код 14359845

1. Principal activities

PUBLIC JOINT STOCK COMPANY “BTA BANK” (the “Bank”) was formed on 10 December 1992. The Bank operates under a general banking licence # 25 issued by the NBU on 14 October 2011, which provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses a licences for securities trading operations and custodial services from the State Committee for the Securities and Stock Market dated 05 October 2009. In 2013, the Bank obtained licence for custody services of depository institution and licence for mutual fund’s assets saving from the State Committee for the Securities and Stock Market with perpetual existence since 12 October 2013.

The Bank accepts deposits from the public, extends credit, transfers payments in Ukraine and abroad, exchanges currencies, and provides other banking services to its commercial and retail customers.

With effect from 2 September 1999, the Bank became a member of the deposit guarantee fund. The fund is a Government specialised institution, which accumulates insurance contributions of Ukrainian banks. Insurance covers the Bank’s liabilities to individual depositors for the amount up to UAH 200 thousand for each individual in event of business failure and revocation of the banking license issued by the NBU (2012: UAH 200 thousand).

The Bank’s head office is in Kyiv and as at 31 December 2013, the Bank had 13 operational outlets (31 December 2012: 19).

The Bank’s registered legal address is 75 Zhylianska Str., Kyiv, Ukraine.

As at 31 December 2013, JSC BTA Bank (Kazakhstan) owned 49.9883% (2012: 49.9883%) of issued ordinary shares of the Bank. Members of the Supervisory Board and Management Board controlled 49.9923% (2012: 49.9923%) of the Bank.

2. Operating environment and current political situation in Ukraine

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government’s policies and actions with regard to administrative, fiscal, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

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

In March 2014, people in the Autonomous Republic of Crimea voted in a referendum in favour of seceding from Ukraine and becoming a part of the Russian Federation. The Crimean parliament declared the independence. While the referendum and declaration of independence have been ruled unconstitutional by the Ukraine’s Constitutional Court, the President of the Russian Federation and the representatives of Crimea signed an agreement on the accession of Crimea to the Russian Federation, which has been ratified by the constitutional court and the Parliament of the Russian Federation. As at 31 December 2013, the carrying value of the Bank’s assets located in or otherwise associated with the Crimea (including customers, borrowers, etc.) is UAH 5,097 thousand.

Furthermore, from 1 January 2014 to 26 March 2014, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 32%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

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

Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments, including the political unrest, could adversely affect the Bank's results and financial position in a manner not currently determinable.

3. Basis of preparation

General

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

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, financial assets available-for-sale, derivative financial instruments, and investment property are carried at fair value and buildings are carried at revalued amount.

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

Inflation accounting

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

Reclassification

In the course of preparation of the financial statements for the year ended 31 December 2013 the Bank identified that depreciation of revaluation reserve for property and equipment was overstated for UAH 1,126 thousand. The Bank corrected the errors by reclassifying balances as at 31 December 2011. Such reclassification had impact on Statement of financial position and Statement of changes in equity as at 31 December 2012 and 2011. The effect of the corrections is as follows:

	As previously reported	*Reclassification*	*As reclassified*
Statement of financial position as at 31 December 2011			
Retained earnings / (Accumulated losses)	23,343	(916)	22,427
Revaluation reserve	4,007	916	4,923
Statement of changes in equity for the year ended 31 December 2011			
Retained earnings / (Accumulated losses)	23,343	(916)	22,427
Revaluation reserve	4,007	916	4,923
Statement of financial position as at 31 December 2012			
Retained earnings / (Accumulated losses)	(214,701)	(1,126)	(215,827)
Revaluation reserve	3,955	1,126	5,081
Statement of changes in equity for the year ended 31 December 2012			
Retained earnings / (Accumulated losses)	(214,701)	(1,126)	(215,827)
Revaluation reserve	3,955	1,126	5,081

4. Summary of significant accounting policies

Changes in accounting policies

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

IFRS 13 "Fair Value Measurement"

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

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Bank provides these disclosures in Note 24.

Amendments to IAS 1 "Changes to the Presentation of Other Comprehensive Income"

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

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

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

Amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"

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

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. 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 to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. 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 included in the income statement. Interest calculated using the effective interest rate method is recognised in the income statement.

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or 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, option pricing models and other relevant valuation models.

Offsetting

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

Reclassification of financial assets

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

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

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 of 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 is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

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

Precious metals

Physical precious metals and deposits in precious metals are recorded at the NBU exchange rates set on the reporting date. Changes in the NBU exchange rates are recorded in the income statement as translation differences from precious metals in net translation differences from foreign currencies.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from foreign currency 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. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the income statement.

If economic characteristics and risks of embedded derivative are closely related to those of the host contract, then the derivative is not separated from the host contract and is accounted in the same line in the statement of financial position. Any changes in fair value of the embedded derivative that is not separated from the host contract are recognised in the income statement.

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 credit institutions and amounts due to customers. Any gain or loss on initial recognition of loans received from shareholders is recognised as additional paid-in capital in equity. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the 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 statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the income statement.

Leases

Operating – Bank as 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.

Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income.

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence 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 allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Available-for-sale financial assets

For financial assets available-for-sale, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the 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 financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:
- If the currency of the loan has been changed, the old loan is derecognised and a new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower then the loan is not recognised as impaired. The loan is not derecognised but a new effective interest rate is determined based on the remaining cash flows under the loan agreement.
- If the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the allowance 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 occur. The loans continue to be subject to an individual or collective impairment assessment, and their recoverable value is calculated using the loan's original or current effective interest rate.

Asset management

The Bank acts as an asset manager for a number of construction financing funds. The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management, but assesses the need to recognise any provisions relating to additional guarantees issued by the Bank with respect to the activities of such funds. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

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 income statement.

Financial guarantees

The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees, letters of credit and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each reporting date, the commitments to provide a loan at a below-market interest rate are measured at the higher of (i) the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

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.

Ukraine also has various operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of administrative and operating expenses.

Property and equipment

Following initial recognition at cost, buildings are carried at a 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 buildings does not differ materially from their carrying amount.

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

An annual transfer from the revaluation reserve for buildings 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. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve for buildings included in equity is transferred directly to retained earnings on a straight-line basis as the Bank uses the assets. On the retirement or disposal of the assets, the remaining revaluation reserve is immediately transferred to the retained earnings.

Furniture and fixtures, equipment, motor vehicles and leasehold are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

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	12 – 55
Furniture and fixtures	2
Computers and office equipment	4 – 7
Motor vehicles	2 – 4

Expenditures made for leasehold improvements are recognised as assets and charged to profit or loss on a straight-line basis over the shorter of the applicable lease term or the economic life of the leasehold improvement.

The asset’s residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

Expenditures incurred after the property and equipment has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the expenses in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of properties.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Intangible assets

Intangible assets include 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 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Investment property

Investment property is property held to earn rental income or for capital appreciation rather than for use in the operating activities or for administrative purposes and which is not occupied by the Bank.

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

Assets classified as 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 its sale must be highly probable.

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

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

Provisions

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

Retirement and other benefit obligations

The Bank does not have any pension arrangements 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. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 “Financial Reporting in Hyperinflationary Economies”.

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

Contingencies

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

Recognition of income and 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 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.

Fee and commission income

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

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

- *Fee income from providing transaction services*

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

Foreign currency translation

The financial statements are presented in the Ukrainian hryvnia, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as net gain/(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 net gain/(losses) from dealing in foreign currencies. UAH exchange rates established by the NBU and used in the preparation of the financial statements are as follows:

	31 December 2013	*31 December 2012*
US dollar	7.99300	7.9930
Euro	11.04153	10.5372
Russian ruble	0.24497	0.2631

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments"

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

Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities"

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

IFRIC Interpretation 21 "Levies"

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

5. Significant accounting judgements and estimates

In the process of applying the Bank’s accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Fair value of financial instruments

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

Identification of inter-bank swap deals

In 2013, the Bank entered into number of interbank mutual placements in different currencies with other Ukrainian banks. The purpose of the majority of these deals was to provide short-term financing to other banks secured with a cash deposit received in return. The principal amounts of such placements and attractions and related interest rates on such deals can differ significantly. The Bank considers all these mutual placements to be derivative financial instruments and netted respective balances and income/expenses.

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 are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of property and equipment, investment property and assets held-for-sale

As stated in Note 4, buildings of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of the work of independent appraisers. The basis for their work is the sales comparison approach, which is further confirmed by the income capitalisation approach. When performing the revaluation, certain judgements and estimates are applied by the appraisers in determination of the comparison of property and equipment to be used in the sales comparison approach, the useful life of the assets revalued, the capitalisation rate to be applied for the income capitalisation approach.

Deferred tax asset recognition

As at 31 December 2013, the Bank has recognised a deferred tax asset of UAH 4,643 thousand (2012: UAH 8,266 thousand). The Bank’s management believes that, within a reasonable period, the Bank will have sufficient taxable profit that will enable it to utilise its deferred tax assets.

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2013	*2012*
Cash on hand	73,172	63,350
Current accounts with the NBU (other than obligatory reserve)	36,015	56,173
Current accounts with credit institutions	79,500	423,399
Time deposits with credit institutions up to 90 days	191,963	-
Cash and cash equivalents	380,650	542,922

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. There are no restrictions on the withdrawal of funds from the current account with the NBU. As at 31 December 2013 and 31 December 2012, all cash and cash equivalents are neither past due nor impaired.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Amounts due from credit institutions and obligatory reserve deposit with the NBU

	2013	*2012*
Obligatory reserve deposit with the NBU	32,405	19,196

With effect from July 2013, Ukrainian banks are required to keep 40% (2012: till June 70%, since June 50%) of the obligatory reserve for the previous month on a separate account with the NBU bearing interest at 1.95% p.a. (2012: 2.25% p.a.). The withdrawal of these funds is restricted by legislation.

The Bank meets the NBU obligatory reserve requirements as at 31 December 2013 and 2012.

Amounts due from credit institutions comprise the following:

	2013	*2012*
Time deposits with credit institutions	1,694,269	394,504
Guarantee deposits	9,185	9,205
Amounts due from credit institutions	1,703,454	403,709

As at 31 December 2013, guarantee deposits represent security deposits with one Ukrainian bank (2012: one Ukrainian bank) providing cover for plastic card transactions.

Allowance for impairment of amounts due from credit institutions

A reconciliation of the allowance for impairment of amounts due from credit institutions is as follows:

	2013	*2012*
As at 1 January	-	90,331
Charge/(reversal) for the year	(16,085)	-
Amounts written off	-	(87,706)
Sale of amounts due from credit institutions	16,085	-
Translation differences	-	(2,625)
At 31 December	-	-

8. Derivative financial instruments

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

	2013			*2012*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts:						
Swaps	98,377	3	(65)	252,347	216	(973)
Total derivative assets/(liabilities)		3	(65)		216	(973)

9. Loans to customers

Loans to customers comprise:

	2013	*2012*
Corporate loans	976,748	1,292,464
Loans to individuals	48,828	73,901
Gross loans to customers	1,025,576	1,366,365
Less - allowance for impairment	(259,727)	(275,027)
Loans to customers	765,849	1,091,338

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2013, corporate loans include embedded derivatives on foreign currency indexed loans with a fair value of UAH 9,120 thousand (2012: UAH 15,911 thousand). The change in the fair value for the year of UAH 6,791 thousand (2012: UAH 8,175 thousand) is recognised in net gain/ (loss) from foreign currencies. The carrying value of the loans is UAH 358,696 thousand as at 31 December 2013 (2012: UAH 351,128 thousand).

As at 31 December 2013, included in loans to individuals are embedded derivatives on foreign currency indexed loans with a fair value of UAH 340 thousand (2012: UAH 770 thousand). The change in the fair value for the year of UAH 430 thousand (2012: UAH 148 thousand) is recognised in net gain/ (loss) from foreign currencies. The carrying value of the loans is UAH 7,080 thousand as at 31 December 2013 (2012: UAH 2,787 thousand).

Allowance for impairment of loans to customers

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

	Corporate loans	*Loans to individuals*	*Total*
At 31 December 2012	253,880	21,147	275,027
Charge /(reversal) for the year	35,878	(12,635)	23,243
Amounts written off	(38,093)	(19,843)	(57,936)
Recoveries	2,490	16,903	19,393
At 31 December 2013	254,155	5,572	259,727
Individual impairment	254,152	2,629	256,781
Collective impairment	3	2,943	2,946
	254,155	5,572	259,727
The gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	902,628	29,290	931,918

	Corporate loans	*Loans to individuals*	*Total*
At 31 December 2011	32,990	171,118	204,108
Charge/(reversal) for the year	254,839	113,602	368,441
Amounts written off	(32,306)	(257,785)	(290,091)
Sale of loan portfolio	-	(6,033)	(6,033)
Translation differences	(1,643)	245	(1,398)
At 31 December 2012	253,880	21,147	275,027
Individual impairment	251,868	13,340	265,208
Collective impairment	2,012	7,807	9,819
	253,880	21,147	275,027
The gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,191,583	44,474	1,236,057

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2013, comprised UAH 113,995 thousand (2012: UAH 158,556 thousand).

In accordance with Ukrainian legislation, loans may only be written off with the approval of the Management Board of the Bank and, in certain cases, with the respective decision of the Court.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Collateral and other credit enhancements

The amount and type of collateral required by the Bank 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 corporate lending: mortgages over real estate properties, equipment and other facilities, inventory, trade receivables and cash;
- For loans to individuals: mortgages, vehicles and cash.

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

Concentration of loans to customers

As at 31 December 2013, the Bank has a concentration of loans represented by UAH 815,527 thousand due from the ten largest third party borrowers (79.52% of the gross loan portfolio) (2012: UAH 1,065,632 thousand or 78.01%). An allowance of UAH 250,713 thousand (2012: UAH 106,479 thousand) was provided for impairment of these loans.

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

	2013	*2012*
Services	402,255	415,408
Agriculture and food processing	262,524	44,440
Trading enterprises	216,865	463,596
Manufacturing	64,783	327,530
Individuals	48,828	73,901
Real estate construction	13,928	19,284
Other	16,393	22,206
	1,025,576	1,366,365

10. Financial assets available-for-sale

Financial assets available-for-sale comprise the following:

	2013	*2012*
Government bonds of the Ministry of Finance	301,439	65,831
Corporate shares	4,554	4,554
	305,993	70,385

Government bonds issued by the Ministry of Finance of Ukraine are interest-bearing securities denominated in US dollar. These bonds mature from 21 May 2014 through to 18 March 2015 (2012: 29 May 2013 through to 24 June 2013), bearing from 7.97% to 9.2% p.a. (2012: 9.3% p.a.).

11. Investment property

The movements of investment property are as follows:

	2013	*2012*
As at 1 January	435,440	405,732
Additions	85,869	121
Collateral repossession	120,542	-
Disposals	(1,006)	-
Transferred from assets held for sale (Note 13)	19,743	29,587
Transferred from property and equipment (Note 12)	697,742	-
As at 31 December	1,358,330	435,440

Investment property comprises a land, residential and non-residential property claimed as collateral for loans to customers. Investment property is held to earn rentals or for capital appreciation or both, rather than for: use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

	2013	*2012*
Up to 1 year	72,211	57,312
From 1 to 5 years	84,576	57,579
Over 5 years	-	338
Total	156,787	115,229

During the year 2013, the Bank has recognised rental income of UAH 81,106 thousand (2012: UAH 61,613 thousand) included in other income in the income statement.

12. Property and equipment and intangible assets

The movements of property, equipment and intangible assets during 2013 were as follows:

	Build-ings	*Leasehold improve-ments*	*Computers and office equipment*	*Furnitu-re and fixtures*	*Motor vehicles*	*Assets under construc-tion*	*Intangible assets*	*Total*
Cost or revalued amount								
1 January 2013	722,789	10,552	30,680	13,325	5,641	11,856	6,724	801,567
Additions	54	52	304	125	812	53	195	1,595
Revaluation	18,415	-	-	-	-	-	-	18,415
Disposals	-	(2,067)	(1,880)	(1,322)	(897)	(8,561)	(11)	(14,738)
Transfers to investment property	(718,238)	-	-	-	-	-	-	(718,238)
Transfers	-	1	(1,086)	1,128	-	-	(7)	36
31 December 2013	23,020	8,538	28,018	13,256	5,556	3,348	6,901	88,637
Accumulated depreciation								
1 January 2013	(9,943)	(6,980)	(26,525)	(9,931)	(4,566)		(6,128)	(64,073)
Charge for the year	(12,084)	(2,047)	(1,288)	(1,264)	(627)		(586)	(17,896)
Transfers to investment property	20,496	-	-	-	-		-	20,496
Disposals	-	1,609	1,748	1,019	897		11	5,284
31 December 2013	(1,531)	(7,418)	(26,065)	(10,176)	(4,296)		(6,703)	(56,189)
Net book value:								
1 January 2013	712,846	3,572	4,155	3,394	1,075	11,856	596	737,494
31 December 2013	21,489	1,120	1,953	3,080	1,260	3,348	198	32,448

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The movements of property, equipment and intangible assets during 2012 were as follows:

	Build-ings	*Leasehold improve-ments*	*Computers and office equipment*	*Furnitu-re and fixtures*	*Motor vehicles*	*Assets under construc-tion*	*Intangible assets*	*Total*
Cost or revalued amount								
1 January 2012	55,296	31,618	32,678	13,273	4,608	12,191	6,529	156,193
Additions	667,576	799	2,456	2,311	1,033	356	161	674,692
Disposals	(83)	(22,154)	(4,667)	(2,349)	-	-	(65)	(29,318)
Transfers	-	289	213	90	-	(691)	99	-
31 December 2012	722,789	10,552	30,680	13,325	5,641	11,856	6,724	801,567
Accumulated depreciation								
1 January 2012	(1,941)	(11,563)	(27,752)	(9,974)	(3,209)		(5,167)	(59,606)
Charge for the year	(8,085)	(17,571)	(3,023)	(2,306)	(1,357)		(961)	(33,303)
Disposals	83	22,154	4,250	2,349			-	28,836
31 December 2012	(9,943)	(6,980)	(26,525)	(9,931)	(4,566)		(6,128)	(64,073)
Net book value:								
1 January 2012	53,355	20,055	4,926	3,299	1,399	12,191	1,362	96,587
31 December 2012	712,846	3,572	4,155	3,394	1,075	11,856	596	737,494

A valuation of the Bank's buildings was performed by an independent appraiser as at 31 December 2013 and the fair value was determined by reference to market-based evidence. Since the difference between the fair value of buildings and its carrying value is insignificant (less than 10%) no revaluation was recognised.

As at 31 December 2013, the carrying value of buildings would have been UAH 16,302 thousand (2012: UAH 709,180 thousand) had the buildings been carried at cost less accumulated depreciation.

As at 31 December 2013, the cost of fully depreciated items was as follows: computers and office equipment – UAH 20,711 thousand (2012: UAH 19,944 thousand), furniture and fixtures – UAH 9,153 thousand (2012: UAH 3,394 thousand), motor vehicles – UAH 3,325 thousand (2012: UAH 2,571 thousand), intangible assets – UAH 6,336 thousand (2012: UAH 4,251 thousand). The Bank had no idle fixed assets either as at 31 December 2013 or as at 31 December 2012.

13. Assets held-for-sale

The movements in assets held-for-sale are as follows:

	2013	*2012*
As at 1 January	25,374	42,794
Additions	18,960	14,269
Transfers to investment property	(19,743)	(29,587)
Disposals	(8,564)	(2,102)
As at 31 December	16,027	25,374

Assets held-for-sale comprise property that was purchased by the Bank or collateral claimed in recovery of past due loans to customers. As at 31 December 2013, none of the items was impaired.

During 2013, assets held for sale with a carrying value of UAH 19,743 thousand were transferred to investment property (Note 11) as a consequence of changes in the Bank's intentions regarding these assets. The Bank decided to hold the property for the purpose of long term capital appreciation and rental growth, rather than sell the property in the short-term.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

14. Taxation

The corporate income tax expense comprises:

	2013	*2012*
Current tax charge	1,374	1,052
Deferred tax charge/ (credit) – origination and reversal of temporary differences	3,623	4,000
Less – deferred tax recognised in other comprehensive income	(3,057)	(68)
Income tax expense	1,940	4,984

On 13 December 2010, the Parliament of Ukraine adopted a new Tax Code. Under the newly adopted provisions, the corporate income tax rate was decreased to 19% with effect from 1 April 2013, to 18% from 1 January 2014, to 17% from 1 January 2015 and to 16% from 1 January 2016. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

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

	2013	*2012*
Profit/(loss) before income tax expense	134,764	(228,626)
Statutory tax rate	19%	21%
Theoretical income tax (benefit)/expense at the statutory rate	25,605	(48,011)
Non-deductible expenditures	15,525	21,910
Income not recognised in tax accounting	(32,647)	(7,519)
Effect of change in tax rates	1,096	16,054
Change in unrecognised deferred tax assets	(10,687)	22,550
Effect of change in tax bases	3,048	-
Income tax expense	1,940	4,984

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

	2011	Origination and reversal of temporary differences: in the income statement	Origination and reversal of temporary differences: in other comprehensive income	2012	Origination and reversal of temporary differences: in the income statement	Origination and reversal of temporary differences: in other comprehensive income	2013
Tax effect of deductible temporary differences:							
Allowances for impairment and provisions for other losses	20,203	5,519	-	25,722	(21,131)	-	4,591
Tax losses carried forward	6,189	(1,564)	-	4,625	13,427	-	18,052
Fair value of financial assets available-for-sale	10,335	(503)	(68)	9,764	(6,715)	(8)	3,041
Property and equipment	1,245	(1,224)		21	(21)	-	-
Gross deferred tax asset	37,972	2,228	(68)	40,132	(14,440)	(8)	25,684
Unrecognised deferred tax asset	(6,189)	(22,550)	-	(28,739)	10,687	-	(18,052)
Deferred tax asset	31,783	(20,322)	(68)	11,393	(3,753)	(8)	7,632
Tax effect of taxable temporary differences:							
Property and equipment	-	-	-	-	390	(3,049)	(2,659)
Accrued expenses and income	(19,517)	16,390	-	(3,127)	2,797	-	(330)
Deferred tax liability	(19,517)	16,390	-	(3,127)	3,187	(3,049)	(2,989)
Net deferred tax (liability) / asset	12,266	(3,932)	(68)	8,266	(566)	(3,057)	4,643

15. Other assets and liabilities

Other financial assets comprise the following:

	2013	2012
Accrued income	2,880	1,923
Rent receivables	1,468	649
Transit accounts on transactions with customers	279	3,894
Receivables on foreign exchange settlements	1	-
	4,628	6,466
Less – allowance for impairment (Note 16)	(3,305)	(5,118)
Total other financial assets	1,323	1,348

Other non-financial assets comprise the following:

	2013	2012
Other prepaid taxes	165,904	183,200
Prepayments for rent, utilities and other services	5,875	5,584
Due from ex-employees	3,331	3,345
Materials	925	881
Prepayments for property and equipment	355	406
Other	425	84
	176,815	193,500
Less – allowance for impairment (Note 16)	(5,895)	(4,868)
Total other non-financial assets	170,920	188,632

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2013 and 2012, other prepaid taxes mainly consist of value added tax (VAT) credit related to repossessed investment property and buildings in the amount of UAH 164,109 thousand (2012: UAH 182,716 thousand) which will be set-off against current VAT liabilities, including recognised as a result of the future sale of property.

Other financial liabilities comprise the following:

	2013	*2012*
Payables for service	262	430
Transit accounts for card operations	176	751
Transit accounts on transactions with customers	55	4,220
Provisions for irrevocable guarantees and undrawn loan commitments (Note 16)	13	635
Payables on foreign exchange settlements	-	601
Total other financial liabilities	506	6,637

Other non-financial liabilities comprise the following:

	2013	*2012*
Deferred income	11,343	7,423
Unused vacation accrual and other salary related accruals	4,976	4,820
Payables to individuals’ deposit guarantee fund	3,252	2,247
Taxes payable, other than income tax	1,870	1,502
Other	1,431	575
Total other non-financial liabilities	22,872	16,567

16. Other impairment allowance and provisions

The movements in allowances for other assets and provisions were as follows:

	Other financial assets	*Other non-financial assets*	*Provisions*	*Total*
31 December 2011	293	3,770	127	4,190
Charge / (reversal)	4,138	1,084	508	5,730
Translation differences	687	14	-	701
31 December 2012	5,118	4,868	635	10,621
Charge	1,065	1,027	-	2,092
Amounts written off	(2,863)	-	(622)	(3,485)
Translation differences	(15)	-	-	(15)
31 December 2013	3,305	5,895	13	9,213

Allowances for impairment of other assets are deducted from the carrying amounts of the related assets. Provisions are recorded in other liabilities.

17. Amounts due to credit institutions

Amounts due to credit institutions comprise the following:

	2013	*2012*
Deposits from other banks	1,480,863	393,591
Loans from other Banks	423,496	363,731
Current accounts	42	33
Amounts due to credit institutions	1,904,401	757,355

As at 31 December 2013, loans from other Banks include UAH 209,953 thousand granted by BTA Bank Kazakhstan. This amount consists of payables for two repossessed buildings. The difference between the fair value of claimed property and the outstanding amount of bad loan is to be paid to BTA Bank Kazakhstan which also granted loans to the same customers and was in the second order in rights for this collateral. During 2013, gain on extinguishment of financial liability owed to BTA Bank Kazakhstan due to substantial modification of terms in amount of UAH 177,672 thousand was recognized.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

18. Amounts due to customers

The amounts due to customers comprise the following:

	2013	2012
Current accounts		
- Legal entities	80,241	78,432
- Individuals	66,908	66,256
- Due to funds under the Bank's management	47	77
Time deposits		
- Legal entities	39,775	124,853
- Individuals	1,170,063	1,132,297
Amounts due to customers	1,357,034	1,401,915

At 31 December 2013, amounts due to customers of UAH 237,716 thousand (18%) were due to the ten largest third party customers (2012: UAH 254,380 thousand or 18%).

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.

An analysis of customer accounts by economic sector follows:

	2013	2012
Individuals	1,236,971	1,198,553
Trade	22,615	61,391
Manufacturing	14,493	16,842
Insurance	4,371	9,241
Real estate constructions	4,323	5,323
Agriculture	3,253	2,785
Transport and communication	2,007	882
Machine building	8,339	154
Other	60,662	106,744
Amounts due to customers	1,357,034	1,401,915

Funds under the Bank's management

The Bank acts as a fund manager for construction-financing funds. The movements of amounts on the funds' accounts were as follows:

	Funds under the Bank's management
31 December 2011	273
Funds attracted from individuals	7,280
Invested funds	(7,476)
31 December 2012	77
Funds attracted from individuals	2,451
Invested funds	(2,481)
31 December 2013	47

19. Equity

In 2012 and 2013, there were no movements in the Bank's outstanding, issued and fully paid shares.

As at 31 December 2013, the number of authorised ordinary shares is 20,000,000 (2012: 20,000,000) with a nominal value per share of UAH 75. All authorised shares have been issued and fully paid. All common shares have equal voting, dividend and capital repayment rights.

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia and the shareholders are entitled to dividends and any capital distributions in Ukrainian hryvnia. There were no dividends or other capital distributions declared in 2013.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Share capital was restated in prior periods based on the inflation adjustment that was made to account for the hyperinflation effect in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies".

Movements in other reserves

The movements in other reserves were as follows:

	Revaluation reserve for property and equipment	*Fair value reserve for financial assets available-for-sale*	*Other reserves*
31 December 2011 (as previously reported)	4,007	-	4,007
Reclassification (Note 3)	916	-	916
31 December 2011 (reclassified)	4,923	-	4,923
Depreciation of revaluation reserve, net of tax	(131)	-	(131)
Gains less losses from revaluation of financial assets available-for-sale	-	(5,601)	(5,601)
Impairment of financial assets available-for-sale reclassified to the Income statement	-	3,639	3,639
Realised losses on financial assets available-for-sale reclassified to the Income statement	-	2,319	2,319
Income tax relating to components of other comprehensive income	-	(68)	(68)
31 December 2012 (reclassified)	4,792	289	5,081
Depreciation of revaluation reserve, net of tax	(131)	-	(131)
Revaluation of buildings	18,415	-	18,415
Gains less losses from revaluation of financial assets available-for-sale	-	425	425
Realised gains on financial assets available-for-sale reclassified to the Income statement	-	(21)	(21)
Income tax relating to components of other comprehensive income	(3,049)	(8)	(3,057)
31 December 2013	20,027	685	20,712

Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

Fair value reserve for financial assets available-for-sale

This reserve records fair value changes on financial assets available-for-sale.

Reserve and other funds

Reserve and other funds are created in accordance with Ukrainian legislation to cover unforeseeable losses of the Bank. Reserve and other funds are created by distribution of the Bank's net profit for the year (not less than 5%) until the Reserve and other funds equals 25% of the regulatory capital of the Bank.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

20. Commitments and contingencies

Legal

In the course of business, in order to protect its interests (both property and non-property) legal actions and complaints occur, where the Bank acts as plaintiff and defendant.

In order to protect its rights and interests and exclude contingent liabilities during consideration of legal cases, the Bank takes all measures provided by law, aimed on the course of legal proceedings, which does not affect the deterioration of the financial results of the Bank.

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.

Taxation

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 diminishes 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.

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

Financial commitments and contingencies

As at 31 December 2013, the Bank's financial commitments and contingencies comprised the following:

	2013	*2012*
Irrevocable undrawn loan commitments	1,697	7,208
Guarantees	-	673
	1,697	7,881
Less – provisions (Note 16)	(13)	(635)
Financial commitments and contingencies	1,684	7,246

Future minimal lease payments

As at 31 December, future minimal lease payments under non-cancellable leases commitments were as follows:

	2013	*2012*
Up to 1 year	2,262	3,302
From 1 to 5 years	492	1,955
Total	2,754	5,257

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

21. Net fee and commission income

Net fee and commission income comprises the following:

	2013	*2012*
Cash and settlements operations	14,565	15,200
Loan services	609	950
Securities operations	125	126
Guarantees and letters of credit	9	47
Other	99	186
Fee and commission income	15,407	16,509
Cash and settlement operations	(4,280)	(4,112)
Fee and commission expense	(4,280)	(4,112)
Net fee and commission income	11,127	12,397

22. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise the following:

	2013	*2012*
Salaries and bonuses	49,084	54,478
Social security costs	13,991	15,690
Personnel expenses	63,075	70,168
Legal and consultancy	56,317	21,883
Utility for own property	13,064	7,242
Payments to Individuals' Deposit Guarantee Fund	11,467	6,553
Occupancy and rent	8,637	17,448
Repair and maintenance of property and equipment	7,708	11,383
Security	5,131	5,196
EDP cost	3,530	3,632
Office supplies	3,011	2,713
Operating taxes	2,991	2,436
Marketing and advertising	1,681	4,717
Loss on disposal of assets held-for-sale	1,219	40
Communications	1,055	1,057
Loss on disposal of property and equipment	676	281
Business travel and related expenses	540	801
Loss on disposal of investment property	223	-
Representation expenses	203	312
Cash collection expenses	111	215
Other	4,594	5,706
Other operating expenses	122,158	91,615

23. Financial risk management

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

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

Risk management structure

Supervisory Board

The Supervisory Board of the Bank determines and consolidates the Bank's risk management strategy.

Management Board

The Management Board of the Bank is responsible for the implementation of the risk management strategy. The Board develops internal regulations that deal with risk management policies, the methods and procedures by which risk is evaluated and the process by which risk management is monitored. The Board reports to the Supervisory Board regarding the realisation of the Bank's strategy and the management of considerable risks.

Credit Committee

The Credit Committee meets on a daily basis and is responsible for implementing the internal regulations set by the Board, including setting credit policy in line with these regulations, approving credit limits, including limits for financial counterparties, monitoring credit performance and the quality of the Bank's loan portfolio and reviewing large projects and the credit policies of regional branches of the Bank.

Each regional branch of the Bank and each branch has its own Credit Committee that ultimately reports to the Head Office Credit Committee.

Asset and Liability Committee (“ALCO”)

The ALCO is responsible for overseeing the Bank's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Board and its own assessments, and matches assets and liabilities with different maturities, develops various scenarios of the Bank's statement of financial position structure relating to liquidity and interest rate risks. It also periodically reviews the Bank's asset and liability position and determines the strategy of the Bank's asset and liability management. The ALCO also monitors and reviews interest rates in respect of the assets and liabilities of the Bank.

Risk Management Department

The Risk Management Department is responsible for implementing and execution of risk management procedures to ensure an independent control process.

Bank Treasury

The Bank's Treasury department is responsible for managing the Bank's assets and liabilities and ensures the Bank's current liquidity.

Internal Audit

The Internal Audit Department is responsible for determining, reviewing and improving the Bank's system of internal controls. The Internal Audit Department monitors the conformity of the Bank's policies with current legislation and regulation, professional norms and ethics. It also ensures the conformity of the Bank's accounting practices to Ukrainian accounting rules, and confirms the conformity of aggregate accounting statistics with primary document data.

Risk measurement and reporting systems

During the risk management process, the Bank determines three categories of losses: expected losses, unexpected losses and extraordinary losses. Expected losses are measured as an average amount of losses on active transactions. Unexpected losses are possible adverse deviations of the amount of expected losses due to unexpected but possible events (are calculated based on mathematical models). Extraordinary losses related to the crises events (both at the level of the Bank and at the macroeconomic level).

During the risk analysis process, the Bank considers the exposure of extreme circumstances (stress scenarios) on the basis of which the extraordinary emergency measures are determined in the form of a contingency plan.

The risk control process comprises risk planning and the setting of limits. The Bank determines the level of risk which it is willing to accept for achieving its business goal and performing strategic tasks.

To control the current level of the liquidity risk, the Bank uses external and internal limits which are communicated to other Bank's units in the form of ALCO decisions.

Limits set by the Bank for lending are approved by the Credit Committee and subdivided into individual credit risk limits, portfolio and specific transactions credit risk limits, limits of authorities in respect of making credit decisions.

The Bank monitors risks, examines the trends and analysis reasons for changes in the risk level. It regularly compares the projected and actual risk indicators, as well as determines correlation of different types of risks in order to develop and undertake the appropriate measures.

Information received from the result of the analysis is regularly presented in the form of a report for examination by the Management Board, the Asset and Liability Committee and Credit Committee.

The Bank’s Supervisory Board is informed about risk levels on a quarterly basis.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

The Bank executes a credit risk management function during the process of selection of potential borrowers taking into account concentration risk of related parties, industries, maturity, currency and other parameters which defined in internal regulations.

To maintain a reasonable level of concentration, the Bank sets structural limits which are within prudential requirements.

Credit risk

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

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

Credit-related commitments risks

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

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives before the effect of mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment 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.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Credit quality per class of financial assets

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

31 December 2013	*Neither past due nor individually impaired*				*Past due or individually impaired*	*Total*
	Notes	*High grade*	*Standard grade*	*Sub-standard grade*		
Current accounts with the NBU	6	36,015	-	-	-	36,015
Current accounts with credit institutions	6	79,500	-	-	-	79,500
Time deposits with credit institutions up to 90 days	6	191,963	-	-	-	191,963
Amounts due from credit institutions	7	1,703,454	-	-	-	1,703,454
Obligatory reserve deposit with the NBU	7	32,405	-	-	-	32,405
Derivative financial assets	8	3	-	-	-	3
Corporate loans	9	56,118	18,291	-	902,339	976,748
Loans to individuals	9	2,105	7,146	-	39,577	48,828
Financial assets available-for-sale	10	301,439	-	-	-	301,439
Total		2,403,002	25,437	-	941,916	3,370,355

31 December 2012	*Neither past due nor individually impaired*				*Past due or individually impaired*	*Total*
	Notes	*High grade*	*Standard grade*	*Sub-standard grade*		
Current accounts with the NBU	6	56,173	-	-	-	56,173
Current accounts with credit institutions	6	420,918	2,481	-	-	423,399
Time deposits with credit institutions up to 90 days	6	394,504	-	-	-	394,504
Amounts due from credit institutions	7	9,205	-	-	-	9,205
Obligatory reserve deposit with the NBU	7	19,196	-	-	-	19,196
Derivative financial assets	8	216	-	-	-	216
Corporate loans	9	59,953	30,566	4,569	1,197,376	1,292,464
Loans to individuals	9	5,811	7,615	398	60,077	73,901
Financial assets available-for-sale	10	65,831	-	-	-	65,831
Total		1,031,807	40,662	4,967	1,257,453	2,334,889

It is the Bank's credit risk management policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Neither past due nor impaired loans are split by the Bank into the following credit risk categories:

High grade. This category includes exposures with insignificant credit risk which is characterized by strong financial position of the borrower and good loan servicing.

Standard grade. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; there are exposures to borrowers with good financial standing and good payment history or borrowers with strong financial position and payment history with delays not exceeding 90 days;

Sub-standard grade. This category includes exposures with significant credit risk which is characterized by weak/poor financial position of the borrower and good/poor loan servicing.

The following table shows the principle according to which the credit quality grades were assigned to financial assets in the table above.

		Rating values		
	Rating system	*High grade*	*Standard grade*	*Sub-standard grade*
Corporate loans	The NBU’s classification system for corporate customers	1	2	3,4,5
Loans to individuals	The NBU’s classification system for individual customers	1	2	3,4,5

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

31 December 2013	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers					
- Loans to individuals	647	-	289	9,062	9,998
Total	647	-	289	9,062	9,998

31 December 2012	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers					
- Corporate loans	-	-	-	5,793	5,793
- Loans to individuals	1,974	584	97	12,948	15,603
Total	1,974	584	97	18,741	21,396

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Geographical concentration

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

	2013			
	Ukraine	*OECD*	*CIS and other countries*	*Total*
Assets:				
Cash and cash equivalents	305,220	74,940	490	380,650
Obligatory reserve deposit with the NBU	32,405	-	-	32,405
Due from credit institutions	1,703,454	-	-	1,703,454
Loans to customers	765,849	-	-	765,849
Financial assets available-for-sale	305,993	-	-	305,993
Derivative financial asset	3	-	-	3
Other financial assets	1,323	-	-	1,323
	3,114,247	74,940	490	3,189,677
Liabilities:				
Amounts due to credit institutions	1,694,448	-	209,953	1,904,401
Derivative financial liability	65	-	-	65
Amounts due to customers	1,300,504,	9,092	47,438	1,357,034
Current income tax liabilities	-	-	-	-
Other financial liabilities	506	-	-	506
	2,995,523	9,092	257,391	3,262,006
Net position	118,724	65,848	(256,901)	(72,329)
Net commitments and contingencies	1,684	-	-	1,684

	2012			
	Ukraine	*OECD*	*CIS and other countries*	*Total*
Assets:				
Cash and cash equivalents	123,126	417,315	2,481	542,922
Obligatory reserve deposit with the NBU	19,196	-	-	19,196
Due from credit institutions	403,709	-	-	403,709
Loans to customers	1,091,338	-	-	1,091,338
Financial assets available-for-sale	70,385	-	-	70,385
Derivative financial asset	216	-	-	216
Other financial assets	1,348	-	-	1,348
	1,709,318	417,315	2,481	2,129,114
Liabilities:				
Amounts due to credit institutions	393,624	-	363,731	757,355
Derivative financial liability	973	-	-	973
Amounts due to customers	1,326,942	2,365	72,608	1,401,915
Current income tax liabilities	332	-	-	332
Other financial liabilities	6,637	-	-	6,637
	1,728,508	2,365	436,339	2,167,212
Net position	(19,190)	414,950	(433,858)	(38,098)
Net commitments and contingencies	7,246	-	-	7,246

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

The main liquidity risk factor is represented by the maturity gap in the assets and liabilities of the Bank.

The main principles of liquidity risk management are as follows:
- centralisation of liquidity risk management at the Head Office level;
- separate management of short-term and structural liquidity;
- diversification of funding sources;
- limitation of liquidity risk through establishment of limits;
- matching of assets and liabilities in terms of maturity;
- maintenance of an adequate liquidity buffer in the event of a liquidity deficit;
- adequate monitoring and control system.

In order to evaluate liquidity risk, the Bank uses gap analysis, ratio analysis, scenario analysis (including stress testing) and borrowed funds structure analysis. Liquidity risk is evaluated with respect to each currency.

The Assets and Liabilities Committee is generally responsible for development of the liquidity risk management strategy. Operational short-term liquidity (up to 90 days) risk management is exercised by the Treasury Division and Securities Division, ensuring compliance with short-term liquidity risk limits. The structural liquidity management decisions are taken by ALCO on the basis of the information prepared by the Risk Management Division.

Short-term liquidity risk management

In order to evaluate short-term liquidity risk, a gap analysis is prepared on a daily basis with respect to contractual maturity and currency. For maturities up to 14 days – a detailed daily payment schedule is used to determine a daily demand for additional financing; maturities greater than 14 days up to 90 days are grouped into several time categories (time buckets) for liquidity management purposes.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank considers the following assets to be liquid: cash on hand, correspondent accounts with the NBU and other banks and securities refinanced by the NBU. An adequate volume of liquid assets is determined based on stress testing. Furthermore, the Bank has entered into facility agreements with several banks, which it may use in order to satisfy an unexpected demand for funds. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBU, the amount of which depends on the level of customer funds attracted.

In order to restrict short-term liquidity risk, the following ratios have been established for the Bank on a stand-alone basis:
- instant liquidity ratio, which is computed under the algorithm established by the NBU for the H4 ratio (cash on hand and balances on nostro accounts with banks/ balances on customers' current accounts);
- current liquidity ratio, which is computed under the algorithm established by the NBU for the H5 ratio (cash on hand, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days);
- short-term liquidity ratio limit which is computed under the algorithm established by the NBU for the H6 ratio (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year).

Structural liquidity risk management

In order to evaluate structural liquidity risk, a gap analysis of assets and liabilities is prepared on a daily basis with respect to contractual maturity (greater than 91 days) and currency.

The Bank has set the following ratios in order to measure and limit its structural liquidity risk:
- ratio of term liabilities to total liabilities;
- ratio of amounts due to other credit institutions to total liabilities;
- ratio of the cumulative gap between monetary assets and liabilities to monetary assets.

Scenario analysis in liquidity risk management

The Bank regularly monitors the liquidity of the money market. 3 scenarios are analysed: usual market conditions; liquidity crisis of the Bank; liquidity crisis in the market. In the latter case, the Bank implements a preliminary developed action plan for maintaining liquidity under crisis conditions.

Additionally, the Bank develops stress-testing scenarios, which reflect unlikely but material adverse changes of factors affecting the business of the Bank.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The diversified structure of the Bank's obligations is achieved through permanent monitoring of the liabilities portfolio concentration by category of customers with the largest amounts of funds with the Bank (the total amount of funds due to the 5, 10 and 20 largest customers).

Assessment of the liquidity position

The adherence to 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 primarily on a standalone basis, based on certain liquidity ratios established by the NBU as described in the short-term liquidity risk management section above.

As at 31 December 2013, the liquidity position, assessed by certain liquidity ratios established by the NBU, was as follows:

	Required level	*2013, %*	*2012, %*
N4 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand)	not less than 20%	130%	307%
N5 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	not less than 40%	288%	169%
N6 "Short-Term Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year)	not less than 60%	71%	82%

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 months liabilities are those that 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 period.

31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Due to credit institutions	1,694,448	-	161,279	262,216	2,117,943
Derivative financial liabilities					
- Contractual amounts payable	98,468	-	-	-	98,468
- Contractual amounts receivable	98,424	-	-	-	98,424
Due to customers	499,222	802,612	43,535	14,247	1,359,616
Other financial liabilities	506	-	-	-	506
Total undiscounted financial liabilities	2,391,068	802,612	204,814	276,463	3,674,957

31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Due to credit institutions	393,935	-	423,496	-	817,431
Derivative financial liabilities					-
- Contractual amounts payable	252,871	-	-	-	252,871
- Contractual amounts receivable	(252,458)	-	-	-	(252,458)
Due to customers	382,146	967,460	63,540	29,336	1,442,482
Other financial liabilities	6,637	-	-	-	6,637
Total undiscounted financial liabilities	783,131	967,460	487,036	29,336	2,266,963

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The table below shows the contractual expiry by maturity of the Bank's irrevocable financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2013	1,591	66	27	-	1,684
2012	749	6,426	-	71	7,246

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

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

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

Market risk – Non - trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is 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 31 December 2013. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points 2013	*Sensitivity of net interest income 2013*	*Sensitivity of equity 2013*	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*
USD	+100	5,924	689	+5	(100)	(18)
UAH	+100	(443)	-	+5	(9)	-
EUR	+100	6,924	-	+5	24	-

	Decrease in basis points 2013	*Sensitivity of net interest income 2013*	*Sensitivity of equity 2013*	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*
USD	-100	(5,924)	(689)	-5	100	18
UAH	-100	443	-	-5	9	-
EUR	-100	(6,924)	-	-5	(24)	-

Currency risk

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The Bank has established the following limits to minimise its exposure to currency risk:
- total open currency position;
- total long open currency position;
- total short open currency position.

Compliance with the internal limits of the Bank is in line with the currency risk management requirements established by the NBU.

The tables below indicate the currencies to which the Bank had 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 the hryvnia, with all other variables held constant on the income statement. The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate 2013*	*Effect on profit before income tax 2013*	*Increase in currency rate 2012*	*Effect on profit before income tax 2012*
US dollar	30%	(2,608)	7.10%	9,601
Euro	30%	(2,345)	12.67%	8,011
Russian rouble	20%	(115)	13.60%	162

Currency	*Decrease in currency rate 2013*	*Effect on profit before income tax 2013*	*Decrease in currency rate 2012*	*Effect on profit before income tax 2012*
US dollar	-5%	435	-7.10%	(9,601)
Euro	-5%	391	-12.67%	(8,011)
Russian rouble	-20%	115	-13.60%	(162)

Operational risk

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

24. Fair value measurements

Fair value measurement procedures

The Bank's Investment property and Securities Departments and Treasury determine the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as real property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the Bank's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Bank, in conjunction with the Bank's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. Periodically, the Bank and external valuers present the valuation results to the audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in the valuations.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Fair value hierarchy

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

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Derivative financial assets	31.12.2013	-	3	-	3
Financial assets available-for-sale	31.12.2013	-	301,439	4,554	305,993
Investment property	31.12.2013	-	-	1,358,330	1,358,330
Property and equipment	31.12.2013	-	-	21,489	21,489
Assets for which fair values are disclosed					
Cash and cash equivalents		380,650	-	-	380,650
Obligatory reserve deposit with the NBU		32,405	-	-	32,405
Amounts due from credit institutions		-	1,703,454	-	1,703,454
Loans to customers		-	896,766	-	896,766
Liabilities measured at fair value					
Derivative financial liabilities	31.12.2013	-	65	-	65
Liabilities for which fair values are disclosed					
Amounts due to credit institutions		-	1,811,689	-	1,811,689
Amounts due to customers		-	1,303,184	-	1,303,184

The following table presents analysis of financial instruments measured at fair value by levels of the fair value hierarchy as at 31 December 2012:

31 December 2012	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Financial assets available-for-sale	65,831	-	4,554	70,385
Derivative financial assets	-	216	-	216
Financial liabilities				
Derivative financial liabilities	-	973	-	973

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 financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2013			*2012*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	380,650	380,650	-	542,922	542,922	-
Obligatory reserve deposit with the NBU	32,405	32,405	-	19,196	19,196	-
Amounts due from credit institutions	1,703,454	170,3454	-	403,709	403,709	-
Loans to customers	765,849	896,766	130,917	1,091,338	963,527	(127,811)
Financial liabilities						
Amounts due to credit institutions	1,904,401	1,811,689	(92,712)	757,355	817,458	60,103
Amounts due to customers	1,357,034	1,303,184	(53,850)	1,401,915	1,380,111	(21,804)
Total unrecognised change in fair value			(15,645)			(89,512)

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

Assets for which fair value approximates carrying value

For 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 and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

The fair value 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 and loans is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Derivatives

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

Securities available-for-sale

Securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. 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.

Movements in level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	At 1 January 2013	*At 31 December 2013*
Financial assets available-for-sale	4,554	4,554

	At 1 January 2012	*Purchases*	*At 31 December 2012*
Financial assets available-for-sale	4,341	213	4,554

25. 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 23 "Financial 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	380,650	-	380,650	542,922	-	542,922
Obligatory reserve deposit with the NBU	32,405	-	32,405	19,196		19,196
Amounts due from credit institutions	1,703,454	-	1,703,454	403,709	-	403,709
Derivative financial asset	3	-	3	216	-	216
Loans to customers	244,006	521,843	765,849	607,061	484,277	1,091,338
Financial assets available-for-sale	165,789	140,204	305,993	65,831	4,554	70,385
Investment property	-	1,358,330	1,358,330	-	435,440	435,440
Property and equipment	-	32,250	32,250	-	736,898	736,898
Intangible assets	-	198	198	-	596	596
Assets held for sale	16,027	-	16,027	25,374	-	25,374
Deferred income tax assets	-	4,643	4,643	-	8,266	8,266
Current income tax assets	1,989	-	1,989	29	-	29
Other financial assets	1,323	-	1,323	1,348		1,348
Other non-financial assets	5,016	165,904	170,920	5,432	183,200	188,632
Total	2,550,662	2,223,372	4,774,034	1,671,118	1,853,231	3,524,349
Liabilities						
Amounts due to credit institutions	1,694,448	209,953	1,904,401	458,159	299,196	757,355
Derivative financial liabilities	65	-	65	973	-	973
Amounts due to customers	1,299,798	57,236	1,357,034	1,320,865	81,050	1,401,915
Current income tax liabilities	-	-		332	-	332
Other financial liabilities	506	-	506	6,637	-	6,637
Other non-financial liabilities	22,872	-	22,872	16,567	-	16,567
Total	3,017,689	267,189	3,284,878	1,803,533	380,246	2,183,779
Net	(467,027)	1,956,183	1,489,156	(132,415)	1,472,985	1,340,570

The tables above do not reflect the expected cash flows estimated by the Bank based on information relating to deposit repayment history in previous periods. The table shows repayments based on contractual settlement dates. 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. The maturity analysis therefore does not reflect the historical stability of current accounts; their liquidation has historically taken place over a longer period than indicated in the tables above.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Related party transactions

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, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

	2013			*2012*		
	Shareholders and entities with significant influence	*Entities under common control*	*Key management personnel*	*Shareholders and entities with significant influence*	*Entities under common control*	*Key management personnel*
Loans outstanding at 1 January	-	-	42	-	-	54
Net increase (decrease) of loans during the year	-	-	(39)	-	-	(12)
Loans outstanding at 31 December	-	-	3	-	-	42
Interest income on loans	-	-	12	-	-	7
Amounts due from credit institutions as at 1 January	-	-	-	-	90,331	-
Net increase (decrease) of amounts due from credit institutions during the year	-	-	-	-	(90,331)	-
Amounts due from credit institutions as at 31 December	-	-	-	-	-	-
Allowance for impairment of amounts due from credit institutions as at 1 January	-	-	-	-	(90,331)	-
Net (increase) decrease of allowance for impairment of amounts due from credit institutions during the year	-	-	-	-	90,331	-
Allowance for impairment of amounts due from credit institutions as at 31 December	-	-	-	-	-	-
Amounts due to credit institutions as at 1 January	363,731	34	-	123,797	-	-
Net increase/(decrease) of amounts due to credit institution during the year	(153,778)	8	-	239,934	34	-
Amounts due to credit institutions as at 31 December	209,953	42	-	363,731	34	-
Amounts due to customers as at 1 January	-	1,440	22,087	-	1,312	3,217
Net (decrease)/ increase of amounts due to customers during the year	-	(21)	2,098	-	128	18,870
Amounts due to customers as at 31 December	-	1,419	24,185	-	1,440	22,087

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2013			2012		
	Shareholders and entities with significant influence	*Entities under common control*	*Key management personnel*	*Shareholders and entities with significant influence*	*Entities under common control*	*Key management personnel*
Interest expense	23,894	-	2,098	27,403	-	1,090
Fee and commission income	-	37	2	-	63	11

Compensation of key management personnel was comprised of the following:

	2013	*2012*
Salaries and other short-term benefits	8,873	9,282
Social security costs	1,683	829
Total key management compensation	10,556	10,111

27. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank.

During 2013, the Bank complied in full with all its externally imposed capital requirements.
The primary objectives of the Bank's capital management strategy are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

NBU capital adequacy ratio

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

	2013	*2012*
Main capital	1,498,180	1,500,884
Additional capital	32,270	9,473
Total capital	1,530,450	1,510,357
Risk weighted assets	3,877,501	4,204,780
Capital adequacy ratio	39.47%	35.92%

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Capital adequacy ratio under Basel Capital Accord 1988

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

	2013	*2012*
Tier 1 capital	1,468,444	1,335,489
Tier 2 capital	20,712	5,081
Total capital	1,489,156	1,340,570
Risk weighted assets	2,752,333	2,904,466
Tier 1 capital adequacy ratio	53.35%	45.99%
Total capital adequacy ratio	54.11%	46.16%

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

N. V. Sergeeva — Chairlady of the Board

O. V. Latun — Chief Accountant

26 March 2014

м. Київ * УКРАЇНА * ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО
БТА БАНК
Ідентифікаційний код 14359845