Public Joint Stock Company
“ProCredit Bank”
Financial Statements

Year ended 31 December 2013
Together with Independent Auditors’ Report

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

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

Independent Auditors' Report (Audit Opinion)

To the shareholders and Management Board of "ProCredit Bank" PUBLIC JOINT-STOCK COMPANY

Report on the Financial Statements of "ProCredit Bank" PUBLIC JOINT-STOCK COMPANY

We have audited the accompanying financial statements of "ProCredit Bank" PUBLIC JOINT-STOCK COMPANY ("the Bank") (code ERDPU – 21677333; actual address – 107-A, Peremohy Avenue, 03115 Kyiv; date of state registration – 28 December 2000), which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

We draw attention to Note 3 to the financial statements, which describe the political unrest in Ukraine that started in November 2013 and escalated in 2014. The events referred to in Note 3 could adversely affect the Bank's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

1) Section 3 of Article 155 of the Civil Code of Ukraine requires a joint stock company to announce reduction of its share capital and make appropriate changes to its charter documents in accordance with the effective legislation, if its net assets as at the end of the second annual reporting period (from the inception) and all subsequent reporting periods are lower than its statutory capital. A joint stock company should be dissolved, if its net assets are lower than the minimum share capital required by the effective legislation.
   The Bank's net assets that are calculated based on the separate financial statements as at 31 December 2013 are UAH 308,702 thousand, which is greater than its registered statutory capital and higher than the minimum registered statutory capital established by the effective law.
2) We have read the other information disclosed by the Bank in its annual report of the issuer of securities, which includes, but is not limited to the accompanying financial statements. We have not noted any material inconsistencies between the accompanying financial statements and the unaudited annual report of the issuer of securities.
3) The Law of Ukraine "On Joint Stock Companies" ("the Law") requires certain approvals to be obtained prior to executing significant transactions by a joint stock company with a market value of such assets (works, services) more than 10% of an entity's total assets as at the end of the latest annual reporting period. Our audit of the financial statements involved performing procedures to obtain audit evidence on a test basis about the amounts and disclosures in the financial statements, but was not designed to express an opinion on the compliance of all significant transactions (as defined by the Law) with the requirements of the Law. Accordingly, we do not express such an opinion.

Building a better working world

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:

   a. Supervisory Board by decision of General Shareholders Meeting dated 21 December 2000,
   b. Revision Commission by decision of General Shareholders Meeting dated 21 December 2000,
   c. Internal Audit Department by decision of General Shareholders Meeting dated 21 December 2000,
   d. Developed and approved Corporate Governance Code by decision of General Shareholders Meeting dated 18 November 2011.

   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.

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-2013-00205 dated 29 August 2013. Our audit of the financial statements of the Bank has been performed during the period from 11 November 2013 to 4 April 2014.

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

Svistich A.M.
General Director

Studynska Y.S.
Partner
Auditor's certificate
Series B No. 0131
valid till 24 December 2014

4 April 2014
Kyiv, Ukraine

ProCredit Bank
Income Statement for the year ended 31 December 2013

In thousands of UAH	**Note**	**2013**	**2012**
Interest income	29	389,867	367,177
Interest expense	29	(141,112)	(114,518)
Net interest income		**248,755**	**252,659**
Allowance for impairment of loans to customers, net of recovery of previously written-off loans to customers	38	2,977	(48,857)
Net interest income after allowance for loan impairment		**251,732**	**203,802**
Fee and commission income	30	**87,277**	**82,976**
Fee and commission expense	30	**(11,673)**	**(10,661)**
Net fee and commission income		**75,604**	**72,315**
Foreign exchange translation gains less losses		(1,159)	(117)
Losses from financial assets designated at fair value through profit or loss		(2,230)	-
Gains less losses from trading in foreign currencies		10,577	10,668
Gains less losses on investment securities available for sale		170	(186)
Trading result		**7,358**	**10,365**
Other operating income		4,255	3,249
Administrative and other operating expenses	31	(270,150)	(252,744)
Profit before tax		**68,799**	**36,987**
Income tax expenses	32	(26,653)	(11,409)
Profit for the year		**42,146**	**25,578**

Approved for issue and signed on behalf of the Management Board on 04 April 2014.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	Note	2013	2012
Profit for the year		**42,146**	**25,578**
Components of other comprehensive income:			
(Losses) / gains from revaluation of investment securities available for sale		(90)	106
Accumulated gains / (losses) transferred to Income statement upon disposal of investment securities available for sale		170	(186)
Deferred tax on revaluation reserve of available-for-sale securities	31	(17)	17
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		63	(63)
Other comprehensive income/(loss) for the year		**63**	**(63)**
Total comprehensive income for the year		**42,209**	**25,515**

Approved for issue and signed on behalf of the Management Board on 04 April 2014.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

ProCredit Bank
Statement of Financial position as at 31 December 2013

In thousands of UAH	**Note**	**31 December 2013**	**31 December 2012**
ASSETS			
Cash and cash equivalents	33	322,549	300,363
Mandatory reserves in National Bank of Ukraine	34	93,348	103,248
Financial assets available at fair value through profit or loss	35	42,916	45,135
Due from other banks	36	-	104,014
Loans and advances to customers	37,38	1,817,542	1,525,435
Investment securities available-for-sale	39	432	20,614
Current income tax asset		1,038	183
Deferred income tax asset	32	17,462	31,873
Premises and equipment	40	77,201	66,850
Intangible assets	42	9,505	9,771
Investment property	41	13,453	-
Other financial assets	43	8,498	7,692
Other non-financial assets	43	57,212	45,082
Total assets		**2,461,156**	**2,260,260**
LIABILITIES			
Due to other banks	44	25,798	-
Customer accounts	45	1,877,356	1,578,208
Debt securities in issue	46	21,040	102,099
Other borrowed funds	47	156,264	253,493
Other financial liabilities	48	14,584	10,559
Other non-financial liabilities	48	1,798	1,053
Current income tax liabilities		7,287	-
Subordinated debt	49	48,327	48,355
Total liabilities		**2,152,454**	**1,993,767**
EQUITY			
Share capital	50	298,333	298,333
Share premium		(223)	(223)
Retained earnings / (Accumulated deficit)		10,592	(31,554)
Revaluation reserve of AFS securities		-	(63)
Total equity		**308,702**	**266,493**
Total liabilities and equity		**2,461,156**	**2,260,260**

Approved for issue and signed on behalf of the Management Board on 04 April 2014.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	**Note**	**Share capital**	**Share premium**	**Retained earnings / (Accumulated deficit)**	**Revaluation reserve of AFS securities**	**Total equity**
Balance at 1 January 2013		**298,333**	**(223)**	**(57,132)**	**-**	**240,978**
Total comprehensive income/(loss) for the year		-	-	25,578	(63)	**25,515**
Balance at 31 December 2012		**298,333**	**(223)**	**(31,554)**	**(63)**	**266,493**
Total comprehensive income for the year		-	-	42,146	63	**42,209**
Balance at 31 December 2013		**298,333**	**(223)**	**10,592**	**-**	**308,702**

Approved for issue and signed on behalf of the Management Board on 04 April 2014.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	**Note**	**2013**	**2012**
Profit for the year		**42,146**	**25,578**
Adjsutments for :			
Depreciation and amortisation	31	16,559	14,506
Allowance for impairment of loans to customers	38	45,471	82,727
Accrued interest income		(609)	6,258
Accrued interest expenses		2,901	5,115
Current and deffered income taxes	32	26,653	11,409
Amortisation of discounts and premiums of financial instruments		6,118	(137)
Revaluation of financial assets designated at fair value through profit or loss		2,230	-
Cash flows from operating activities before changes in operating assets and liabilities		**141,469**	**145,457**
Increase / decrease in operating assets and liabilities:			
Mandatory reserves in National Bank of Ukraine		9,900	(2,660)
Due from other banks		103,944	98,344
Loans and advances to customers		(343,399)	45,214
Other financial assets		(805)	(973)
Other non-financial assets		(12,130)	(18,888)
Due to other banks		25,789	-
Customer accounts		294,771	50,734
Other financial liabilities		3,248	1,868
Other non-financial liabilities		744	249
Net cash from operating activities before tax		**223,531**	**326,634**
Income tax paid		(5,050)	-
Net cash from operating activities after tax		**218,481**	**326,634**
Cash flows from investing activities			
Acquisition of financial assets at fair value through profit or loss		-	(44,126)
Acquisition of investment securities available for sale		-	(41,964)
Proceeds of investment securities available for sale		20,831	20,389
Acquisition of premises, equipment and intangible assets		(41,415)	(15,490)
Proceeds from disposal of premises and equipment		1,318	5,209

Net cash used in investing activities		**(19,266)**	**(75,982)**
Cash flows from financing activities			
Proceeds from debt securities in issue		(79,335)	-
Proceeds from other borrowed funds		7,993	16,993
Repayment of other borrowed funds		(105,685)	(126,903)
Repayment of subordinated debt		-	(63,944)
Net cash used in financing activities		**(177,027)**	**(173,854)**
Effect of exchange rate changes on cash and cash equivalents		**(2)**	**(1)**
Net changes in cash and cash equivalents		**22,186**	**76,797**
Cash and cash equivalents at the beginning of the year		**300,363**	**223,566**
Cash and cash equivalents at the end of the year	33	**322,549**	**300,363**

Approved for issue and signed on behalf of the Management Board on 04 April 2014.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

A. Basis of Presentation

1) Compliance with International Financial Reporting Standards

ProCredit Bank ("the Bank") prepares its financial statements according to International Financial Reporting Standards ("IFRS"). The Bank's financial statements for the year ended 31 December 2012 are prepared in accordance with IFRS as issued by the IASB and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body have been applied.

There was no early adoption of any standard, changes and amendments to standards which is not yet effective.

2) Compliance with Local Law

The Bank is incorporated and domiciled in Ukraine. The Bank is a public joint stock company according to Ukrainian legislative requirements. The Bank was initially founded as a closed joint stock company called Microfinance Bank and was registered by the National Bank of Ukraine ("NBU") on 28 December 2000 under the registration number 276. On 16 September 2003, by the resolution of its shareholders, the Bank changed its name from Microfinance Bank to ProCredit Bank. This change was implemented in recognition of the full-service bank strategy and emphasises the fact that the Bank belongs to the network of ProCredit Banks in Eastern Europe, Latin America and Africa. In September 2009, following the requirements of the new Joint Stock Company Law of Ukraine and amendments to the Law on Banks and Banking providing that banks in Ukraine may only exist in the form of public joint stock companies or cooperative banks, the Bank changed its corporate form to a public joint stock company, retaining all rights and obligations of the former closed joint stock company without any limitation.

The Bank's immediate parent and ultimate controlling party is ProCredit Holding AG&Co. KGaA (2012: ProCredit Holding AG&Co. KGaA).

The Bank's principal business activity is rendering a full range of commercial banking and corporate finance services with the focus being on the provision of financial services to very small, small and medium-sized economic entities in Ukraine for the purpose of making a profit and supporting the social and economic development of Ukraine. . The Bank is operating under a banking licence and a general licence to carry out foreign currency transactions No.195 issued by the National Bank of Ukraine on 13 October 2012.

The Bank has 33 branches throughout Ukraine (in 2012 – 33 branches).

The Bank's registered address and place of business is 107-A, Peremohy Avenue, Kyiv, 03115, Ukraine.

3) Operating Environment of the Bank and 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. In February 2014, the President and majority of Government officials were dismissed by the Parliament. The Parliament has initiated certain political reforms, has appointed a transitional Government and is forming a set of anti-crisis measures. On 21 March 2014, Ukraine signed a political association with the European Union.

In 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.

Furthermore, from 1 January 2014 to 04 April 2014, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 30%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available. All the factors mentioned above may lead to a deterioration in the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values, and losses on corporate bonds. Also, the political unrest has led to reduced levels of deposits.

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

4) Use of Assumptions and Estimates

The Bank's financial reporting and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Accounting policies and management judgements on certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following positions:

Allowances for impairment of loans

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. The Bank estimates changes in future cash flows for an asset based on the observable data indicating that there has been an adverse change in the payment discipline of borrowers or in local economic conditions that could cause a possible default on the assets. Management uses estimates based on historical loss experience for assets with credit-risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Further information on the Bank's accounting policy on loan loss provisioning can be found in Note 13 and Note 38***.***

Tax legislation

Ukrainian tax, currency and customs legislation is subject to varying interpretations. The fiscal year of the Bank is the calendar year. Refer to Note 19.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Particularly, the related parties of the Bank include such entities as international financial institutions. Facilities provided by these entities in developing countries are at rates lower than those provided by commercial organisations. On the other hand, lending by these entities can be considered as a specific market as such rates are applied to all entities receiving facilities from international financial institutions. Based on this no gain on initial recognition of such facilities was recognised. Terms and conditions of related party balances are disclosed in Note 58.

Going concern

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

5) Accounting Developments

Changes in accounting policies

The Bank has adopted the following amended IFRS during the year:

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

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 [Group] provides these disclosures in Note 56.

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

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Bank has no subsidiaries with material non-controlling interests as well as unconsolidated structured entities.

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 of lines in statement of other comprehensive income only.

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 amendment has no impact on the Bank's financial position or performance.

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

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.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank, since none of the entities in the Bank does not qualify to be an investment entity under IFRS 10. These amendments, new editions and interpretations, presumably, would not have impact on financial statements of the Bank.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments, new editions and interpretations, presumably, would not have impact on financial statements of the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. These amendments, new editions and interpretations, presumably, would not have impact on financial statements of the Bank.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments, new editions and interpretations, presumably, would not have impact on financial statements of the Bank.

6) Presentation Currency

These financial statements are presented in thousands of Ukrainian hryvnia (UAH thousands). For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise state

B. Summary of Significant Accounting Policies

7) Measurement Basis

These financial statements have been prepared under the historical cost basis, unless IFRS requires recognition at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in a n orderly transaction between market participants at the measurement date. IFRS define a hierarchy of fair value determination which reflects the relative reliability of the various ways of obtaining a fair value:

(a) Active market: Quoted price (Level 1)

Use quoted prices for identical financial instruments in active markets.

(b) Valuation technique using observable inputs (Level 2)

Use quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use valuation models where all significant inputs are observable.

(c) Valuation technique with significant non-observable inputs (Level 3)

Use valuation models where one or more significant inputs are not observable.

Only if the first best way of determining the fair value is not available may the next best determination method be applied. If possible, the Bank obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques for the statement of financial position items are part of the accounting policies listed below.

Reporting and valuation are conducted according to the going concern assumption.

8) Financial instruments

The Bank classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Management determines the classification of financial assets and liabilities at initial recognition.

(a) *Financial assets and liabilities at fair value through profit or loss*

Financial assets classified as financial assets held for trading (“trading assets”), or financial assets designated at fair value through profit or loss at inception. The Bank does not apply hedge accounting.

Financial instruments held for sale, consisting solely of the fair value of derivative financial instruments used for financial risk management, and never with the purpose of hedging with application of hedge accounting as defined by IAS 39 “Financial instruments: recognition and measurement”. Derivative financial instruments, which have positive fair value recognised at the reporting date, consist of financial assets included in the group "Financial assets designated at fair value through profit or loss". Derivative financial instruments, which have negative fair value recognised at the reporting date, consist of financial liabilities included in the group "Financial liabilities designated at fair value through profit or loss".

Financial assets are designated at fair value through profit or loss when they are:

- part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- contains derivative financial instrument, which could not be measures reliably as separate instrument (include indexed state debt securities).

Information about fair value of this portfolio delivers to Bank’s Management on monthly basis.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the income statement of the period as “net result from financial assets at fair value through profit or loss”.

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date – the date on which the Bank commits to purchase or sell the asset.

(b) *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 arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each statement of financial position date and whenever there is evidence of potential impairment, the Bank assesses the value of its loans and receivables. Their carrying amount may be reduced, as a consequence, through the use of an allowance account (see Note 13 for the accounting policy for impairment of loans, and Note 38 for details on impairment of loans). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the income statement. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been recognised as of the evaluation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Loss on initial recognition

When the transaction price differs from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the income statement. The amount of difference is amortised over the life-time of the financial instrument using the effective interest method and profit or loss is recognised in the income statement.

(c) Available-for-sale financial investments

Available-for-sale investments are those intended to be held for an indefinite amount of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial recognition, available-for-sale financial investments are recorded at fair value plus transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on currently observable market data. For very short-term financial investments it is assumed that the fair value is best reflected by the transaction price itself. Gains and losses arising from changes in fair value of available-for-sale financial investments are recognised directly in other comprehensive income, until the financial investments is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss as "gains and losses from available-for-sale financial investments". Interest calculated using the effective interest method and foreign currency gains and losses on investments classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive the payment is established.

Purchases and sales of available-for-sale financial investments are recorded on their settlement date. The available-for-sale financial investments are derecognised when the rights to receive cash flows from the investments have expired or where the Bank has transferred substantially all risks and rewards of ownership.

9) Foreign Currency Translation

(a) *Functional and presentation currency*

The Bank's functional currency is the national currency of Ukraine, the Ukrainian hryvnia (UAH). Monetary assets and liabilities are translated into the functional currency at the NBU's official exchange rate at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement (trading result). Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on their fair value of equity securities are recorded as part of the fair value gain or loss.

The Bank uses the Ukrainian hryvnia (UAH) as the currency in which it presents its financial statements.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated at the closing rate on the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, while other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items measured at historical cost denominated in foreign currency are translated at the exchange rate as of the date of initial recognition.

The principal UAH rates of exchange used in the preparation of these financial statements are as follows:

Currency	**31 December 2013, UAH**	**31 December 2012, UAH**
1 US dollar (USD)	7.993	7.993
1 euro (EUR)	11.04153	10.537172
1 Russian ruble (RUB)	0.24497	0.26316

10) Comparatives

In order to comply with the requirements of International financial reporting standards and to meet the objective of providing information that is useful in making economic decisions the Bank can adjust the corresponding figures to conform to the presentation of the current year amounts. There were no changes regarding the disclosure and presentation in the financial statements, except conversion due to change of presentation currency, as mentioned above.

11) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash balances with the National Bank of Ukraine (other than mandatory reserves in the National Bank of Ukraine), correspondent accounts and overnight placements with other banks and other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value.

12) Loans and Receivables

The amounts reported under receivables from customers consist mainly of loans and advances issued.
In addition to overnight and term deposits, the amounts reported under receivables from banks include current account balances.

All loans and receivables due from banks as well as loans and advances to customers fall under the category “loans and receivables” and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the income statement under net interest income. Impairment of loans is recognised through separate allowance accounts (see Note 13).

13) Allowance for Impairment of Financial Assets

(a) Assets carried at amortised cost – loans and advances

Impairment of loans and advances

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the credit exposure, such losses are either calculated on an individual loan basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The Bank does not recognise losses from expected future events.

• <u>Individually assessed loans and advances</u>

Credit exposures are considered individually significant if they exceed USD 30 thousand (2012: USD 30 thousand). For such credit exposures, a determination is made as to whether objective evidence of impairment exists, i.e. any factors that might influence the customer’s ability to fulfil his contractual payment obligations towards the Bank:
- delinquencies in contractual payments of interest or principal:
- breach of covenants or conditions
- initiation of bankruptcy proceedings
- any specific information on the customer’s business (e.g. reflected by cash flow difficulties experienced by the client);

- changes in the customer's market environment;
- the general economic situation.

Additionally, the aggregate exposure to the client and the realisable value of collateral held are taken into account when deciding on the allowance for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of asset and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

- Collectively assessed loans and advances

There are two cases in which credit exposures are collectively assessed for impairment:
- individually insignificant credit exposures that show objective evidence of impairment;
- a group of credit exposures which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis.

For the purposes of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant credit exposures (lump-sum impairment) and for unimpaired credit exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics (migration analysis).

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the income statement.

Restructured credit exposures

Restructured credit exposures which are considered to be individually significant are impaired on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured credit exposures which are individually insignificant are collectively assessed for impairment.

Assets acquired in exchange for loans (repossessed property)

Non-financial assets acquired in exchange for loans as part of an orderly realisation are reported in "other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. No depreciation is charged for assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the income statement in "other operating income". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in "other operating income", together with any realised gains or losses on disposal.

(b) Assets classified as available-for-sale

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. In determining whether an available-for-sale financial asset is impaired the following criteria are considered:

- deterioration of the ability or willingness of the debtor to service the obligation;
- a political situation which may significantly impact the debtor’s ability to repay;
- additional events that make it unlikely that the carrying amount may be recovered.

The Bank primarily invests in government securities with fixed or variable interest rates. Impairments on these investments are recognised when objective evidence exists that the government is unable or unwilling to service these obligations.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from “Other comprehensive income” to the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement at any point thereafter. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale 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.

14) Derivative Financial Instruments

Derivatives are initially recognised at the fair value of the consideration given (when acquiring financial assets) or received (when undertaking financial liabilities). Subsequently, derivatives are measured at fair value. If possible, fair values are obtained from quoted markets or from recent market transactions. Otherwise, they are appraised via discounted cash flow models or option pricing models, as appropriate (see Note 7). Derivatives with a positive fair value are carried as financial assets and reported under “Financial assets at fair value through profit or loss”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Financial liabilities at fair value through profit or loss”.

The resulting fair value gain or loss is recognised immediately in the income statement.

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 in the trading portfolio with changes in fair value recognised in the income statement.

15) Intangible Assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 10 years.

16) Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to premises and leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date, management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the income statement.

Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives on the following basis (in years):

Premises	20
Computers and equipment	3-5
Furniture and fittings	5-7
Leasehold improvements	over the lower of: term of the underlying lease or term of useful life

Depreciation of premises, leasehold improvements and equipment starts when an asset is available for use.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

17) Investment property

Investment property is building or a part of building held to earn rental income or for capital appreciation and which is not used by the Bank or held for the sale in the ordinary course of business.

Investment property is initially recognised at cost, including the acquisition costs, and carried at cost less accumulated depreciation and any accumulated impairment. Depreciation is calculated on a straight-line basis over the estimated useful lives of 20 years for buildings. The assets' residual values, useful lives and method are reviewed and adjusted at each reporting date. Gains or losses on disposal of investment property are calculated as proceeds less residual value. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

18) Leases

Finance leases – the Bank as lessor
When assets are held subject to a finance lease, the present value of the minimum lease payments is recognised as a receivable from customers under "loans and advances to customers" at the commencement date of the lease term. Initial direct costs are included in the initial measurement of the lease receivables. Payments received under leases are divided into an amortisation component which is not recognised in the income statement and an income component. The income component is recognised under "interest income". Premiums received are recognised over the term of the lease using the effective interest method under "interest income".

Operating lease – the 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 in the income statement under administrative expenses on a straight-line basis over the lease term.

Operating lease – the 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 profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

19) Income Tax

Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the statement of financial position date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement unless it is recognised directly in "other comprehensive income" because it relates to transactions that are also recognised, in the same or a different period, directly in "other comprehensive income".

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

Deferred tax
Deferred income tax is provided using the liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects

neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions
The Bank's uncertain tax positions are reassessed by the management at every reporting date. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the statement of financial position date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management’s best estimate of the expenditure required to settle the obligations at the statement of financial position date.

20) Borrowings

Borrowings which include liabilities to banks and customers, debt securities in issue, other borrowed funds from international financial institutions and subordinated debt are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Subordinated debt consists mainly of liabilities to shareholders and other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

21) Provisions for Liabilities and Charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

22) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss which he incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

23) Share Capital and Other Reserves

Ordinary shares and non-redeemable preference shares are both classified as equity Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Excess of fair value of consideration received on nominal value of issued shares is accounted as share premium.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank’s shareholders.

Revaluation reserve of AFS securities
This reserve records fair value changes on investment securities available-for-sale.

Basis for distribution of profit and other disbursements is financial statements of the Bank.

24) Interest Income and Expense

Interest income and expenses for all interest-bearing financial instruments, except for those classified as at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expense are recognised in the income statement in the period in which they arise.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount. Payments received in respect of written-off loans are not recognised in net interest income and reduce the allowance for impairment of loans and advances accordingly.

25) Fee and Commission Income and Expenses

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

26) Dividend Income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

27) Amendments of the Financial Statements after Issue

Any changes to these financial statements require the approval of the Bank's management who originally authorised these financial statements for issue.

28) Staff Costs and Related Contributions

Wages, salaries, contributions to Ukraine's state pension and social insurance funds, annual leave and sick leave, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

C. Notes to the Income Statement

29) Interest Income and Expense

	2013	2012
Interest income		
Loans and advances to customers	378,108	361,461
Due from other banks	4,488	4,003
Cash and cash equivalents	1,858	-
Investment securities available-for-sale	1,309	704
	385,763	**366,168**
Net result from financial assets at fair value through profit or loss	4,104	1,009
Total interest income	**389,867**	**367,177**
Interest expense		
Customer accounts	(118,400)	(74,563)
Other borrowed funds	(11,460)	(18,621)
Subordinated debt	(4,134)	(7,629)
Debt securities in issue	(6,959)	(12,812)
Due to other banks	(159)	(893)
Total interest expense	**(141,112)**	**(114,518)**
Net interest income	**248,755**	**252,659**

Interest income and expense arising from transactions with related parties are disclosed in Note 58.

30) Fee and Commission Income and Expense

	2013	2012
Fee and commission income		
- Settlement and cash transactions	33,768	35,343
- Debit cards	35,276	31,601
- Foreign exchange operations	16,784	13,980
- Other	1,449	2,052
Total fee and commission income	**87,277**	**82,976**
Fee and commission expense		
- Settlement and cash transactions	(4,176)	(3,563)
- Debit cards	(7,497)	(7,098)
Total fee and commission expense	**(11,673)**	**(10,661)**
Net fee and commission income	**75,604**	**72,315**

Fee and commission expense arising from transactions with related parties are disclosed in Note 58.

31) Administrative and Other Operating Expenses

	Note	2013	2012
Staff costs		(136,214)	(141,177)
Operating lease expense for premises		(28,399)	(22,232)
Repair and maintenance		(17,647)	(11,775)
Depreciation of premises, leasehold improvements and equipment	40	(13,700)	(12,021)
Business travel, training expenses		(11,913)	(12,352)
Taxes other than on income		(11,256)	(7,032)
Professional services		(9,565)	(6,403)
Advertising, marketing and entertainment		(8,352)	(7,884)
Office expenses		(5,935)	(6,615)
Mail and telecommunications		(4,745)	(5,119)
Security services		(3,288)	(3,205)
Amortisation of computer software licences	42	(2,859)	(2,485)
Other		(6,109)	(3,124)
Total administrative and other operating expenses		**(270,150)**	**(252,744)**

Included in staff costs are statutory social security and pension contributions of UAH 33,923 thousand (2012: UAH 35,749 thousand). Information on administrative and other expenses from transactions with related parties is disclosed in Note 58.

32) Income Taxes

Income tax expense comprises the following:

	2013	2012
Current tax expenses	12,259	5,912
Deferred tax expense	14,394	5,497
Income tax expense for the year	**26,653**	**11,409**

The income tax rate applicable to the Bank's income is 19% (2012: 21%). Reconciliation between the expected and the actual taxation charge is provided below.

	2013	2012
Profit before tax	**68,799**	**36,987**
Theoretical tax expensesat the statutory rate (2013: 19%; 2012: 21%)	13,072	7,767
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	1,724	1,787
Effect of tax base change	7,923	2,671
Effect of tax rate change	3,934	10,328
Change in unrecognised deferred tax asset	-	(11,144)
Income tax expense for the year	**26,653**	**11,409**

In calculating current taxes on income and earnings the currently valid local tax rate is applied. For calculating deferred taxes tax rates have been applied according to the period when the assets are expected to be realised or liabilities are expected to be settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

In accordance with the accepted provisions and changes to the Tax code introduced at 31 December 2013, the corporate income tax rate was reduced from 1 January 2014, up to18%, starting from 1 January 2015 to 17% starting from 1 January 2016 to 16%.

Subsequent to the reporting date, in accordance with the Law of Ukraine "On prevention of financial catastrophe and the creation of preconditions for economic growth in Ukraine" dated 27 March 2014, the corporate income tax rate was changed to 18% for future reporting periods starting from 1 April 2014.

Differences between IFRS and Ukrainian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the anticipated rates mentioned above.

	31 December 2012	**Income Statement**	**Comprehen-sive Income**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences:				
Loans and Advances to Customers	9,927	(4,217)	-	5,710
Premises, leasehold improvements and equipment	8,180	(7,607)	-	573
Other accrued income and other assets	139	325	-	464
Accrued interest expense	344	(344)	-	-
Unamortised premium and fee on bonds issued	-	(50)	-	(50)
Other accrued expenses	1,188	(239)	-	949
Revaluation reserve of AFS securities	17	-	(17)	-
Revaluation reserve of financial assets designated at fair value through profit or loss	-	392	-	392
Tax loss carried forward	12,078	(2,654)	-	9,424
Net deferred tax asset	**31,873**	**(14,394)**	**(17)**	**17,462**

	31 December 2011	**Income Statement**	**Comprehen-sive Income**	**31 December 2012**
Tax effect of deductible/(taxable) temporary differences:				
Loans and Advances to Customers	22,581	(12,654)	-	9,927
Premises, leasehold improvements and equipment	8,808	(628)	-	8,180
Other accrued income and other assets	82	57	-	139
Accrued interest expense	365	(21)	-	344
Other accrued expenses	1,304	(116)	-	1,188
Revaluation reserve of AFS securities	-	-	17	17
Tax loss carried forward	15,357	(3,279)	-	12,078
Unrecognized deferred tax assets	(11,144)	11,144	-	-
Net deferred tax asset	**37,353**	**(5,497)**	**17**	**31,873**

D. Notes to the Statement of Financial Position

33) Cash and Cash Equivalents

	2013	2012
Cash on hand	124,645	93,318
Cash balances with the National Bank of Ukraine (other than mandatory reserves)	117,109	54,432
Correspondent accounts and overnight placements with other banks		
- Ukraine	14,684	11,839
- Other countries	66,111	140,774
Total cash and cash equivalents	**322,549**	**300,363**

The credit quality of cash and cash equivalents except cash on hand balances as at 31 December 2013 may be summarised based on the lowest of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's) as follows:

	Cash balances with the NBU, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
National Bank of Ukraine	117,109	-	**117,109**
A+ rated	-	66,111	**66,111**
BB- rated	-	5,670	**5,670**
B- rated	-	9,014	**9,014**
Total cash and cash equivalents, excluding cash on hand	**117,109**	**80,795**	**197,904**

The credit quality of cash and cash equivalents except cash on hand balances as at 31 December 2012 may be summarised based on the lowest of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's) as follows:

	Cash balances with the NBU, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
National Bank of Ukraine	54,432		**54,432**
A+ rated	-	140,773	**140,773**
BB- rated	-	3,401	**3,401**
B- rated	-	8,439	**8,439**
Total cash and cash equivalents, excluding cash on hand	**54,432**	**152,613**	**207,045**

Currency and maturity analyses of cash and cash equivalents are disclosed in Note 54. Refer to Note 56 for the estimated fair value of each class of cash and cash equivalents and mandatory reserves.

34) Mandatory reserves in National Bank of Ukraine

Mandatory reserves in National Bank of Ukraine consist of amounts reserved under certain liabilities of the Bank and amounts reserved according to certain assets of the Bank. As at 31 December 2012 the amount of mandatory reserves with NBU was UAH 93 348 thousand (2012: UAH 103,248 thousand).

As at 31 December 2013, in accordance with the NBU regulations the Bank is required to maintain not less than 100% (31 December 2012: 100%) of the mandatory reserve balance for the preceding month, observing the following order:
- 40% of the mandatory reserve balance for the preceding month in a separate restricted account with the NBU (31 December 2012: 50%)
- the remainder of the amount in a non-restricted account with the NBU (31 December 2012: no limit).

As at 31 December 2013, the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (31 December 2012: monthly period) and should be maintained at the level of 0 to 15 per cent (31 December 2012: 0 to 10 per cent) of certain liabilities of the Bank. As such, the balance can vary from day-to-day. As at 31 December 2013 outstanding amount of mandatory reserves with NBU together with 10% cover from nominal value of state securities, denominated in foreign currency was UAH 78,974 thousand (2012: 62,088 thousand). As at 31 December 2013 state securities, denominated in US dollars, with nominal value UAH 19,983 thousand were used as mandatory reserves (Note 39). This outstanding of mandatory reserves has form of percentage deposit. Interest rate determines as 30% of discount rate, established by NBU (as at 31 December 2013: 1,950%; 31 December 2012: 2.250%).

In addition, the Bank is required to keep as a non-interest bearing deposits with the NBU reserve funds in respect of loans granted in foreign currency to borrowers, who have no foreign currency cash proceeds, and balances. As at 31 December 2013 this part of mandatory reserve deposit is UAH 11,424 thousand (2012: UAH 39,834 thousand). The reserve funds are at a level of 20% of non-resident funds deposited in the Bank for a term of less than 183 days. The part of the mandatory reserve deposit with this respect is UAH 2,950 thousand (2012: UAH 1,326 thousand).

35) Financial assets designated at fair value through profit or loss

As at 31 December 2013 financial assets designated at fair value through profit or loss include bonds of the Ministry of Finance of Ukraine with carrying value UAH 42,916 thousand (2012: UAH 45,135 thousand). Bonds issued by the Ministry of Finance of Ukraine are interest-bearing securities which principal will be indexed for the increase between the average interbank UAH/USD exchange rate for the month prior to the month of issuance and the average UAH/USD exchange rate for the month prior to the month of maturity. The maturity of the bonds - September-October 2015 and coupon rate – 9.3% p.a. The Bank decided not to separate the embedded derivative and designated the entire instrument as at fair value through profit or loss.

Part of the bonds are used as collateral under the loan received from German-Ukrainian Fund (GUF) (Note 47). The carrying value of these bonds is UAH 9,191 thousand (2012: UAH 9,255 thousand).

36) Due from Other Banks

Amounts due from other banks consist of short-term placements with other banks. As at 31 December 2013 amounts due from other banks were absent (2012: UAH 104,014 thousand).

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

Neither past due nor impaired	
A+ rated	47,966
Below B-	40,054
Unrated	15,994
Total due from other banks	**104,014**

Amounts due from other banks as at 31 December 2012 are not secured.

Refer to Note 56 for the estimated fair value of each class of “due from other banks”.

Geographical, currency and maturity analyses of “due from other banks” are disclosed in Note 54.

37) Loans and Advances to Customers

The breakdown of loans and advances to customers is presented by categories representing the original loan amounts at the origination date. Loans and advances to customers as at 31 December 2013 are as follows:

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**1,485,352**	**91,130**	**1,394,222**	**76,7%**	**9,703**	**77,2%**
Loan size up to USD 50 thousand	657,102	27,872	629,230	34,6%	8,326	66,2%
Loan size from USD 50 to USD 250 thousand	637,693	36,993	600,700	33,1%	1,294	10,3%
Loan size more than USD 250 thousand	190,557	26,265	164,292	9,0%	83	0,7%
Agricultural loans	**398,230**	**18,833**	**379,397**	**20,9%**	**877**	**7,0%**
Loan size up to USD 50 thousand	68,443	2,253	66,190	3,6%	447	3,6%
Loan size from USD 50 to USD 250 thousand	255,839	14,726	241,113	13,3%	395	3,1%
Loan size more than USD 250 thousand	73,948	1,854	72,094	4,0%	35	0,3%
Housing improvement loans	**5,725**	**407**	**5,318**	**0,3%**	**728**	**5,8%**
Loan size up to USD 50 thousand	5,725	407	5,318	0,3%	728	5,8%
Finance leases	**15,435**	**527**	**14,908**	**0,8%**	**14**	**0,1%**
Loan size up to USD 50 thousand	222	7	215	0,0%	2	0,0%
Loan size from USD 50 to USD 250 thousand	9,202	321	8,881	0,5%	10	0,1%
Loan size more than USD 250 thousand	6,011	199	5,812	0,3%	2	0,0%
Consumer loans*	**14,033**	**812**	**13,221**	**0,7%**	**993**	**7,9%**
Loan size up to USD 50 thousand	7,662	608	7,054	0,4%	981	7,8%
Loan size from USD 50 to USD 250 thousand	6,371	204	6,167	0,3%	12	0,1%
Other loans	**11,226**	**750**	**10,476**	**0,6%**	**246**	**2,0%**
Loan size up to USD 50 thousand	7,278	616	6,662	0,4%	235	1,9%
Loan size from USD 50 to USD 250 thousand	3,948	134	3 814	0,2%	11	0,1%
Total	**1,930,001**	**112,459**	**1,817,542**	**100,0%**	**12,561**	**100,0%**

*Consumer loans also include overdrafts to private individuals.

Loans and advances to customers as at 31 December 2012 are as follows:

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**1,270,369**	**101,082**	**1,169,287**	**76,7%**	**9,283**	**67,5%**
Loan size up to USD 50 thousand	545,760	27,648	518,112	34,0%	7,965	57,9%
Loan size from USD 50 to USD 250 thousand	553,265	47,768	505,497	33,1%	1,233	9,0%
Loan size more than USD 250 thousand	171,344	25,666	145,678	9,5%	85	0,6%
Agricultural loans	**311,646**	**20,755**	**290,891**	**19,1%**	**790**	**5,7%**
Loan size up to USD 50 thousand	58,350	2,184	56,166	3,7%	450	3,3%
Loan size from USD 50 to USD 250 thousand	193,226	10,671	182,555	12,0%	317	2,3%
Loan size more than USD 250 thousand	60,070	7,900	52,170	3,4%	23	0,1%
Housing improvement loans	**23,066**	**808**	**22,258**	**1,5%**	**2,087**	**15,2%**
Loan size up to USD 50 thousand	23,066	808	22,258	1,5%	2,087	15,2%
Finance leases	**12,219**	**1,289**	**10,930**	**0,7%**	**11**	**0,0%**
Loan size up to USD 50 thousand	151	6	145	0,0%	1	0,0%
Loan size from USD 50 to USD 250 thousand	8,823	861	7,962	0,5%	9	0,0%
Loan size more than USD 250 thousand	3,245	422	2,823	0,2%	1	0,0%
Consumer loans*	**18,391**	**1,090**	**17,301**	**1,1%**	**1,242**	**9,1%**
Loan size up to USD 50 thousand	11,692	740	10,952	0,7%	1,231	9,0%
Loan size from USD 50 to USD 250 thousand	6,699	350	6,349	0,4%	11	0,1%
Other loans	**15,922**	**1,154**	**14,768**	**1,0%**	**347**	**2,5%**
Loan size up to USD 50 thousand	10,732	992	9,740	0,6%	334	2,4%
Loan size from USD 50 to USD 250 thousand	5,190	162	5,028	0,3%	13	0,1%
Total	**1,651,613**	**126,178**	**1,525,435**	**100,0%**	**13,760**	**100,0%**

*Consumer loans also include overdrafts to private individuals.

Economic sector risk concentrations in the customer loan portfolio are as follows:

	2013		2012	
	Amount	%	Amount	%
Trade	948,980	49	831,980	50

Agriculture and food industry	398,323	21	311,646	19
Manufacturing	179,256	9	158,482	10
Services	178,911	9	146,080	9
Transport and communication	176,602	9	129,828	8
Individuals	30,984	2	57,379	3
Other	16,945	1	16,218	1
Total loans and advances to customers (before impairment)	**1,930,001**	**100**	**1,651,613**	**100**

As at 31 December 2013, the Bank had 5 borrowers (2012: 7 borrowers) with aggregated loan amounts above USD 1,000 thousand. The total aggregate amount of these loans was UAH 49,630 thousand (2012: UAH 73,515 thousand) or 2,57% of the gross loan portfolio (2012: 4,45%).

Information about collateral that covers the risk relevant to the loan portfolio as at 31 December 2013 is as follows:

	Business loans	**Agricul-tural loans**	**Housing improve-ment loans**	**Finance leases**	**Consumer loans**	**Other loans**	**Total**
Unsecured loans	230,037	1,990	5,672	-	3,689	1,248	**242,636**
Loans collateralised by:							
- residential real estate	285,589	11,255	38	-	8,036	9,362	**314,280**
- other real estate	497,889	69,883	-	15,435	752	122	**584,081**
- cash deposits	11,298	1,293	-	-	1,218	8	**13,817**
- vehicles	421,716	258,198	15	-	338	486	**680,753**
- other assets	38,823	55,611	-	-	-	-	**94,434**
Total loans and advances to customers (before impairment)	**1,485,352**	**398,230**	**5,725**	**15,435**	**14,033**	**11,226**	**1,930,001**

Information about collateral that covers the risk relevant to the loan portfolio as at 31 December 2012 is as follows:

	Business loans	**Agricul-tural loans**	**Housing improve-ment loans**	**Finance leases**	**Consumer loans**	**Other loans**	**Total**
Unsecured loans	183,614	1,398	22,974	-	7,336	1,410	**216,732**
Loans collateralised by:							
- residential real estate	274,812	10,275	68	-	7,902	12,751	**305,808**
- other real estate	456,611	76,361	-	12,219	1,526	399	**547,116**
- cash deposits	9,690	659	-	-	1,188	11	**11,548**
- vehicles	284,336	186,836	24	-	435	1,341	**472,972**
- other assets	61,306	36,117	-	-	4	10	**97,437**
Total loans and advances to customers (before impairment)	**1,270,369**	**311,646**	**23,066**	**12,219**	**18,391**	**15,922**	**1,651,613**

Finance lease

Included in gross loan portfolio are finance lease receivables. The analysis of finance lease receivables as at 31 December 2013 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Gross investment in finance leases	4,179	10,411	5,873
Unearned future finance income on finance leases	(1,306)	(3,184)	(538)
Net investment in finance leases	**2,873**	**7,227**	**5,335**

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

	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Gross investment in finance leases	1,903	7,849	6,949
Unearned future finance income on finance leases	(944)	(2,618)	(920)
Net investment in finance leases	**959**	**5,231**	**6,029**

Refer to Note 54 for the estimated fair value of the collateral as at 31 December 2013.

Refer to Note 56 for the estimated fair value of each class of “loans and advances to customers”.

Currency and maturity analyses of “loans and advances to customers” are disclosed in Note 54. The information on related party balances is disclosed in Note 58.

38) Allowance for Impairment on Loans and Advances to Customers

Allowances for impairment on loans and advances to customers as at 31 December 2013 are as follows:

	Gross outstanding amount	Allowance for impairment	Net outstanding amount
Individually significant impaired loans	**116,718**	**(46,133)**	**70,585**
Business	91,615	(38,845)	52,770
Agricultural	10,359	(6,738)	3,621
Finance leases	11,993	(440)	11,553
Consumer	1,723	(69)	1,654
Other	1,028	(41)	987
Individually insignificant impaired loans	**19,722**	**(10,077)**	**9,645**
Business	14,050	(8,633)	5,417
Agricultural	332	(246)	86
Housing improvement	424	(261)	163
Consumer	1,915	(449)	1,466
Other	3,001	(488)	2,513

Collectively assessed loans	**1,793,561**	**(56,249)**	**1,737,312**
Business	1,379,687	(43,652)	1,336,035
Agricultural	387,539	(11,849)	375,690
Housing improvement	5,301	(146)	5,155
Finance leases	3,442	(87)	3,355
Consumer	10,395	(294)	10,101
Other	7,197	(221)	6,976
Total	**1,930,001**	**(112,459)**	**1,817,542**

Allowance for impairment on loans and advances to customers as at 31 December 2012 were as follows:

	Gross outstanding amount	**Allowance for impairment**	**Net outstanding amount**
Individually significant impaired loans	**155,739**	**(67,701)**	**88,038**
Business	136,108	(55,995)	80,113
Agricultural	16,054	(11,107)	4,947
Finance leases	-	-	-
Consumer	1,565	(278)	1,287
Other	2,012	(321)	1,691
Individually insignificant impaired loans	**23,008**	**(11,414)**	**11,594**
Business	15,325	(9,191)	6,134
Agricultural	987	(768)	219
Housing improvement	518	(328)	190
Consumer	2,348	(514)	1,834
Other	3,830	(613)	3,217
Collectively assessed loans	**1,472,866**	**(47,063)**	**1,425,803**
Business	1,118,936	(35,896)	1,083,040
Agricultural	294,605	(8,880)	285,725
Housing improvement	22,548	(480)	22,068
Finance leases	12,219	(1,289)	10,930
Consumer	14,478	(298)	14,180
Other	10,080	(220)	9,860
Total	**1,651,613**	**(126,178)**	**1,525,435**

Movements in the allowance for impairment on loans and advances to customers during 2013 are as follows:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consu-mer loans	Other loans	Total
As at 1 January 2013	**101,082**	**20,755**	**808**	**1,289**	**1,090**	**1,154**	**126,178**
Allowances for impairment during the year	37,986	7,648	357	(661)	547	(406)	**45,471**
Currency translation differences	203	42	2	2	2	2	**253**
Amounts written-off during the year as uncollectible	(41,282)	(9,458)	(760)	-	(825)	-	**(52,325)**
Interest income on impaired loans	(6,859)	(154)	-	(103)	(2)	-	**(7,118)**
As at 31 December 2013	**91,130**	**18,833**	**407**	**527**	**812**	**750**	**112,459**

Allowance for impairment of loans to customers, net of release of previously written-off loans to customers as at 31 December 2013 are as follows:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consu-mer loans	Other loans	Total
Allowances for impairment during the year	(37,986)	(7,648)	(357)	661	(547)	406	**(45,471)**
Recovery of previously written-off loss loans	45,644	1,151	658	-	982	13	**48,448**
Total	**7,658**	**(6,497)**	**301**	**661**	**435**	**419**	**2,977**

Movements in the allowance for impairment on loans and advances to customers during 2012 are as follows:

	Business loans	**Agricul-tural loans**	**Housing improve-ment loans**	**Finance leases**	**Consu-mer loans**	**Other loans**	**Total**
As at 1 January 2012	**142,543**	**10,546**	**942**	**1,332**	**1,162**	**1,400**	**157,925**
Allowances for impairment during the year	76,234	11,656	777	(44)	1,093	302	**90,018**
Sale of loans to customers	(19,690)	-	-	-	-	-	**(19,690)**
Currency translation differences	88	6	1	1	1	1	**98**
Amounts written-off during the year as uncollectible	(91,220)	(16)	(912)	-	(1,166)	(549)	**(93,863)**
Interest income on impaired loans	(6,873)	(1,437)	-	-	-	-	**(8,310)**
As at 31 December 2012	**101,082**	**20,755**	**808**	**1,289**	**1,090**	**1,154**	**126,178**

During the year 2012 the Bank sold loans to customers with carrying value of UAH 26,145 thousand (before impairment) and impairment of UAH 19,690 thousand at the sale date. The Bank recognised net gain on sale of loan portfolio of UAH 7,291 thousand within impairment losses.

Allowance for impairment of loans to customers, net of release of previously written-off loans to customers as at 31 December 2012 are as follows:

	Business loans	**Agricul-tural loans**	**Housing improve-ment loans**	**Finance leases**	**Consu-mer loans**	**Other loans**	**Total**
Allowances for impairment during the year	(76,234)	(11,656)	(777)	44	(1,093)	(302)	**(90,018)**
Sale of loans to customers (correction of allowance)	7,290	-	-	-	-	-	**7,290**
Recovery of previously written-off loss loans	32,130	193	1,041	-	480	27	**33,871**
Total	**(36,814)**	**(11,463)**	**264**	**44**	**(613)**	**(275)**	**(48,857)**

39) Financial Investments Available for Sale

	2013	2012
Treasury bills of the Ministry of Finance	-	20,190
Investments available-for-sale	432	424
Total financial investments available-for-sale	**432**	**20,614**

As at 31 December 2013, financial investments available-for-sale were neither past due nor impaired.

Currency and maturity analyses of financial investments available-for-sale as at 31 December 2013 are disclosed in Note 54.

40) Premises and Equipment

The changes in premises and equipment are as follows:

	Note	Land and buildings	Leasehold impro-vements	Assets under cons-truction	Furniture and fixtures	IT and other equip-ment	Total
Cost at 1 January 2012		74,915	11,493	570	43,675	43,743	**174,396**
Accumulated depreciation		(15,574)	(10,164)	-	(37,866)	(35,038)	**(98,642)**
Net book value as at 1 January 2012		**59,341**	**1,329**	**570**	**5,809**	**8,705**	**75,754**
Additions		-	358	2,071	3,979	1,761	**8,169**
Transfers		-	2,567	(2,567)	-	-	**-**
Disposals		(4,350)	(269)	(74)	(341)	(18)	**(5,052)**
Depreciation and amortisation charge	31	(3,477)	(1,361)	-	(3,319)	(3,864)	**(12,021)**
Net book value as at 31 December 2012		**51,514**	**2,624**	**-**	**6,128**	**6,584**	**66,850**
Cost at 31 December 2012		69,299	10,825	-	44,239	44,378	**168,741**
Accumulated depreciation		(17,785)	(8,201)	-	(38,111)	(37,794)	**(101,891)**
Net book value as at 31 December 2012		**51,514**	**2,624**	**-**	**6,128**	**6,584**	**66,850**
Additions		53	5,560	18,763	7,378	6,754	**38,508**
Transfers		18,763	-	(18,763)	-	-	**-**
Disposals		(645)	(35)	-	(309)	(15)	**(1,004)**
Transfer to investment property		(13,453)	-	-	-	-	**(13,453)**
Depreciation and amortisation charge	31	(3,232)	(2,684)	-	(3,340)	(4,444)	**(13,700)**

Net book value as at 31 December 2013	**53,000**	**5,465**	**-**	**9,857**	**8,879**	**77,201**
Cost at 31 December 2013	70,444	14,915	-	47,551	47,409	**180,319**
Accumulated depreciation	(17,444)	(9,450)	-	(37,694)	(38,530)	**(103,118)**
Net book value as at 31 December 2013	**53,000**	**5,465**	**-**	**9,857**	**8,879**	**77,201**

Assets under construction consist mainly of the construction and refurbishment of branch premises. Upon completion when assets are available for use they are transferred to "Land & buildings" or "Leasehold improvements".

The land and buildings have a fair value of UAH 108, 431 thousand (2012: UAH 100,199 thousand). The fair value of buildings was determined based on comparison with market data by internal appraisers of the Bank, based on active market prices, adjusted for the differences regarding the nature, location or condition of the specific property.

The gross carrying amount of fully amortised premises and equipment that is still in use equals to UAH 69,686 thousand (2012: UAH 64,705 thousand).

41) Investment property

Investment property consists of commercial property, which is assumed for lease to third parties.

The changes in investment property are as follows:

Investment property	**Note**	**Amount**
Cost at 31 December 2012		-
Accumulated depreciation		-
Net book value as at 31 December 2012		-
Transfers from premises		13,453
Disposals		-
Depreciation	31	-
Net book value as at 31 December 2013		**13,453**
Cost at 31 December 2013		16,386
Accumulated depreciation		(2,933)
Net book value as at 31 December 2013		**13,453**

The investment property have a fair value of UAH 13,212 thousand (2012: nill). The fair value of investment property was determined based on comparison with market data by internal appraisers of the Bank, based on active market prices, adjusted for the differences regarding the nature, location or condition of the specific property.

42) Intangible Assets

The changes in intangible assets are as follows:

Computer software licences

	Note	2013	2012
Cost as at 1 January		24,012	16,856
Accumulated amortisation		(14,241)	(11,764)
Net book value as at 1 January		**9,771**	**5,092**
Additions		2,907	7,321
Disposals		(314)	(157)
Amortisation charge	31	(2,859)	(2,485)
Net book value as at 31 December		**9,505**	**9,771**
Cost as at 31 December		22,112	24,012
Accumulated amortisation		(12,607)	(14,241)
Net book value as at 31 December		**9,505**	**9,771**

43) Other Financial and Non-financial Assets

	2013	2012
Other financial assets		
Guarantee deposits	8,498	7,692
Total other financial assets	**8,498**	**7,692**
Other non-financial assets		
Prepayments for tangible and intangible assets	1,512	2,585
Other prepaid expenses	5,805	3,009
Repossessed property	38,160	35,451
Assets held for sale	-	629
Other non-financial assets	11,735	3,408
Total other non-financial assets	**57,212**	**45,082**
Total other financial and non-financial assets	**65,710**	**52,774**

The carrying value of repossessed properties is either the written-off loan's previous carrying amount or the fair value less cost to sell, whichever is the lower. The following table shows a breakdown of repossessed property:

	2013	**2012**
- residential real estate	3,993	4,562
- other real estate	34,167	30,812
- transport	-	77
Total	**38,160**	**35,451**

The credit quality of other financial assets as at 31 December 2013, based on the lowest out of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's), may be summarised as follows:

	Guarantee deposits
Neither past due nor impaired	
below B- rated	8,498
Total other financial assets	**8,498**

The credit quality of other financial assets as at 31 December 2012, based on the lowest out of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's), may be summarised as follows:

	Guarantee deposits
Neither past due nor impaired	
below B- rated	7,692
Total other financial assets	**7,692**

Currency and maturity analyses of other financial assets are disclosed in Note 54. Refer to Note 56 for the estimated fair value of each class of other financial assets. The information on related party balances is disclosed in Note 58.

44) Due to Other Banks

	2013	**2012**
Short-term liabilities to other banks	25,798	-
Total	**25,798**	**-**

Currency and maturity analyses of due to other banks are disclosed in Note 54. Refer to Note 56 for the estimated fair value of each class of due to other banks. The information on related party balances is disclosed in Note 58.

45) Customer Accounts

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits, and other liabilities to customers. The following table shows a breakdown by customer group:

	2013	2012
Current accounts	**636,253**	**544,213**
- private individuals	212,032	186,375
- legal entities	424,221	357,838
Savings accounts	**438,874**	**364,711**
- private individuals	363,658	306,510
- legal entities	75,216	58,201
Term deposit accounts	**802,229**	**668,384**
- private individuals	772,677	627,619
- legal entities	29,552	40,765
Other liabilities to customers	**-**	**900**
Total	**1,877,356**	**1,578,208**

Savings accounts are interest bearing accounts. Customers can deposit to and withdraw from such accounts at any time. Interest is accrued over daily outstanding balances on such accounts. The interest rate can be unilaterally changed by the Bank based on market interest rates once a year only. Transactions on these accounts are limited to cash depositing and withdrawals, as well as transfers to/from accounts belonging to the same holder.

Economic sector concentrations within customer accounts are as follows:

	2013		2012	
	Amount	**%**	**Amount**	**%**
Individuals	1,348,367	72	1,120,504	71
Services	183,311	10	161,290	10
Trade	164,148	9	146,486	9
Industry and other production	38,864	2	32,176	2
Activities of membership organisations	33,749	2	16,324	1
Transport and communication	31,556	2	24,691	2
Agriculture and food processing	27,240	1	35,610	2
Construction	22,174	1	18,457	1
Embassies and consulates	6,914	-	10,013	1
Repair, installation and maintenance services	5,146	-	6,379	1
Other	15,887	1	6,277	-
Total customer accounts	**1,877,356**	**100**	**1,578,208**	**100**

As at 31 December 2013, the Bank had 13 customers (2012: 16 customers) with balances above USD 500 thousand (near UAH 4,000 thousand). The aggregate balance of these customers was UAH 97,663 thousand (2012: UAH 94,924 thousand) or 5% (2012: 6%) of total customer accounts.

As at 31 December 2013, included in customer accounts are deposits of UAH 1,752 thousand (2012: UAH 1,218 thousand) held as collateral for irrevocable commitments under guarantees issued, covered letters of credit and loans. Refer to Note 57.

Refer to Note ***5***6 for the estimated fair value of each class of customer account. Currency and maturity analyses of customer accounts are disclosed in Note 54. The information on related party balances is disclosed in Note 58.

46) Debt Securities in Issue

As at 31 December 2013, the Bank has debt securities in issue with a total nominal value of UAH 20,665 thousand (2012: UAH 100,000 thousand) and carrying value of UAH 21,040 thousand (2012: UAH 102,099 thousand) denominated in Ukrainian hryvnia. These bonds mature in May 2015, have a coupon rate of interest of 13.5% and weighted average yield to maturity of 13.3%.

Holders of the bonds presented the bonds for early redemption at nominal value in May 2013 and, as result, total amount of redemption of bonds was UAH 79,335 thousand. Under the terms of issue of the bonds the Bank remained the coupon rate of interest of 13.5% starting from May 2013.

47) Other Borrowed Funds

Liabilities to international financial institutions are an important source of financing for the Bank. Long-term loans from international financial institutions are reported under this item.

Counterparty	Currency	Date of contract	Maturity date	Balance outstanding 2013	2012
ProCredit Holding AG (accrued interest on unused amount of credit line)	USD	12.04.2010	30.09.2011	190	83
International Finance Corporation (“IFC”)	USD	21.05.2008	15.05.2015	53,391	88,901
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.12.2007	30.12.2014	35,457	70,828
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	17,764	26,521
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	21,239	31,824
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	14,147	21,315
Kreditanstalt für Wiederaufbau (“KfW”)	USD	17.10.2009	06.10.2014	4,884	4,884
GUF	UAH	05.11.2012	02.10.2017	9,192	9,137
Total other borrowed funds				**156,264**	**253,493**

During 2013 the Bank repaid:
- four loans of UAH 62,168 thousand to Kreditanstalt für Wiederaufbau (“KfW”)
- a loan of UAH 35,524 thousand partially to International Finance Corporation (“IFC”)
- a loan of UAH 7,993 thousand received from ProCredit Holding AG (“PCH”) in 2013.

Total amount repaid during the year 2013 was UAH 105,685 thousand (2012: UAH 126,904 thousand).

The following table gives a breakdown of liabilities to international financial institutions grouped by the type of interest rate under the respective loan agreements and by the term over which the relevant liabilities are due.

	Due	2013	2012
Liabilities with fixed interest rates		**63,870**	**106,247**
	up to 1 year	40,531	83
	up to 2 years	14,147	75,712
	up to 3 years	-	21,315
	up to 4 years	9,192	-
	more than 4 years	-	9,137
Liabilities with variable interest rates		**92,394**	**147,246**
	up to 3 years	92,394	-
	up to 4 years	-	147,246
Total		**156,264**	**253,493**

Refer to Note 57 for the information on the fulfilling of the commitments on covenants (if any) according to the respective loan agreements with international financial institutions.

Refer to Note 56 for the estimated fair value of other borrowed funds.

Currency and maturity analyses of other borrowed funds are disclosed in Note 54. The information on related party balances is disclosed in Note 58.

48) Other Financial and Non-financial Liabilities

	2013	**2012**
Other financial liabilities		
Amount payable and other accruals	10,079	5,566
Accrual for unused vacation	4,505	4,993
Total other financial liabilities	**14,584**	**10,559**
Other non-financial liabilities		
Provisions for commitments and contingencies credit risk	22	29
Other	1,777	1,024
Total other non-financial liabilities	**1,799**	**1,053**
Total other financial and non-financial liabilities	**16,383**	**11,612**

Currency and maturity analyses of other financial liabilities are disclosed in Note 54. The information on related party balances is disclosed in Note 58.

49) Subordinated Debt

Subordinated debt represents a long-term borrowing agreement, which, in the case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The subordinated debt can be broken down as follows:

Counterparty	**Cur-rency**	**Date of contract**	**Maturity date**	**2013**	**2012**
ProCredit Holding	USD	28.09.2006	03.10.2016	22,386	22,404
ProCredit Holding	USD	17.12.2008	21.12.2018	25,941	25,951
Total Subordinated Debt				**48,327**	**48,355**

Refer to Note 56 for the estimated fair value of subordinated debt.

The currency and maturity analyses of subordinated debt are disclosed in Note 54. The information on related party balances is disclosed in Note 58.

50) Share Capital

As at 31 December 2013 and 31 December 2012 ordinary share capital consists of 625,712 shares with nominal value of UAH 476.79 per share and total nominal value of UAH 298,333 thousand.

As at 31 December 2013 and as at 31 December 2013, all of the Bank's outstanding shares were authorised, issued and fully paid up.

All shares are divided into ordinary and preference shares. Each ordinary share carries one vote. The preference shares carry no voting rights except for the cases explicitly provided by Ukrainian laws, but are granted a preferred right to receive dividends as well as a priority participation in the distribution of assets in the event of liquidation.

The shareholding structure of the Bank as at 31 December 2013, based on share types, was as follows:

Shareholder	**Number of shares owned**	**% in share capital**	**Nominal value**
Voting shares			
European Bank for Reconstruction and Development	95,214	20	45,400
ProCredit Holding AG	285,667	60	136,200
Kreditanstalt für Wiederaufbau (KfW)	95,220	20	45,400
Total voting capital	**476,101**	**100**	**227,000**
Non-voting preference shares			
Kreditanstalt für Wiederaufbau (KfW)	149,611	100	**71,333**
Total non-voting capital	**149,611**	**100**	**71,333**
Total capital	**625,712**		**298,333**

E. Risk Management

51) Management of the Overall Bank Risk Profile – Capital Management

Capital management – objectives

The banking activity faces the risks. With the aim to fulfill stable activity, the Bank is not allowed to take on more risk than it is capable of bearing. This rule is put into operation using a system of different indicators for which target and limit ratios have been established. The indicators for the Bank include, in addition to regulatory standards, a Basel II capital adequacy calculation, a Tier I leverage ratio and a risk-bearing capacity model.

The capital management of the Bank has the following objectives:

- Ensuring that the Bank is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Full compliance with external capital requirements set by the regulator.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continued growth while following its business strategy.

Capital management – processes and procedures

The capital management of the Bank is governed by the Group Policy on Capital Management and the Group Policy on Risk Bearing Capacity. Regulatory and Basel II capital ratios, the Tier I leverage ratio and the risk bearing capacity are monitored on a monthly basis by the Bank through the Assets and Liabilities Committee (ALCO), the Market Risk Management Committee and the ProCredit Group Risk Management Committee.

Capital management – compliance with external and internal capital requirements

External minimum capital requirements are imposed and monitored by the National Bank of Ukraine. Capital adequacy is calculated and reported to the respective risk committee at the Bank on a monthly basis. These reports include rolling forecasts to ensure not only current but also future compliance.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level in 2013 at a level of at least 10%. During the reporting period, all regulatory capital requirements were met at all times. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

	2013	**2012**
Statutory capital ratio (N2)	15,89%	15,60%

Additionally, capital adequacy is monitored by using a uniform capital adequacy calculation method across the ProCredit group in accordance with the guidelines of the Basel Committee (Basel II). The calculation of the capital adequacy ratio is based on the Bank's IFRS financial statements and as at the reporting dates comprises:

	2013	**2012**
Tier 1 capital	308,655	240,932
Tier 2 capital	29,670	39,325
Total regulatory capital	**338,325**	**280,257**
Risk weighted assets	2,179,454	2,009,023
Tier I capital ratio	**14,16%**	**11,99%**
Total capital ratio	**15,52%**	**13,95%**

Increase of the capital adequacy ratio in 2013 compared to 2012 year was the result of profitable activity of the Bank in reporting period.

The Tier I leverage ratio (defined as a proportion of the sum of on- and off-balance sheet assets plus exposures from derivatives), is monitored on a monthly basis. It should not fall below a minimum of 5%. The Bank has been in compliance with this limit since the indicator was introduced and stayed well above this level at all times, at the end of 2013 the ratio stood at 10.4%.

Risk bearing capacity

In addition to regulatory capital ratios the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operations with the Bank's capacity to bear such losses.

The risk bearing capacity of the Bank is defined as the Bank's equity (net of intangibles) plus subordinated debt. The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential. For calculating potential losses in the different risk categories the following concepts were used:

- Credit risk (clients):
  The historical loss rates and their statistical distribution are calculated based on a regularly updated migration analysis of the loan portfolio. This calculation is regularly updated, which allows to implement the current data to the current credit portfolio.

  The loan portfolio is divided into groups, depending on the quality of credit indebtedness, and in each of such groups are historical norms of losses (calculated statistically, with a confidence interval of 99.75%). The resulting value indicates the maximum amount of possible losses from the realization of credit risk (probability of 99.75%), which the Bank may incur. This amount is reduced by the amount of reserves under credit operations. Taking into account the conservative approach of the Bank to the accrual of reserves under credit operations, the maximum possible amount of expected losses is fully covered by the allowance for credit operations.

- Credit risk (banks-counterparties):
  The calculation of potential losses in the result of implementation of the credit risk for banks is based on probability of default, which is measured through appropriate international credit rating for each of the counterparties (also taking into account the country's rating of conducting operating activity).

- Market risks:
  For currency risk the amount at risk is calculated as the amount of open currency position, weighed on the amount of monetary shock is defined on the basis of statistical processing of historical data (using a confidence interval of 99%).

  For interest rate risk the effect of possible changes in market interest rates (interest rate shock) on the economic value of the Bank is implemented. The amount of the interest rate shock is defined as a parallel shift (increase) in interest rates by 2 percentage points (p.p.) for foreign currency and historical shock which was observed during the last 7 years (10 p.p.) - for the hryvnia.

- Operational risk:
  The Basel II standard approach is used to calculate the respective value. It is based on a maximal volume of potential losses arising from operations with retail and corporate clients.

Other risks have been assessed as not sufficiently relevant for the Bank or as relevant, but not quantifiable, e.g. liquidity risk.

The Bank's utilisation of its RAtCRs was moderate up to 31 December 2013.

The table below shows the distribution of the RAtCRs among the different risk categories as determined by the Market Risk Committee and the level of utilisation as at 31 December 2013.

Risk Factor	Risk Detail	Target (in %)	Target	Actual	Target used (in % of target)
Credit Risk		33,0%	112,191	-	0,0%
Counterparty Risk	Commercial Banks	1,0%	3,400	6	0,2%
	Central Banks	4,0%	13,599	14,281	105,0%
Market Risk	Currency Risk	2,0%	6,799	1,238	18,2%
	Interest Rate Risk	10,0%	33,997	30,089	88,5%
Operational Risk		10,0%	33,997	43,153	126,9%
Total		**60,0%**	**203,983**	**88,767**	**43,5%**

The table below shows the distribution of the RAtCRs among the different risk categories as determined by the Market Risk Committee and the level of utilisation as at 31 December 2012.

Risk Factor	Risk Detail	Target (in %)	Target	Actual	Target used (in % of target)
Credit Risk		33,00%	90,417	2,065	2,28%
Counterparty Risk	Commercial Banks	1,00%	2,740	109	3,96%
	Central Banks	4,00%	10,960	12,343	112,62%
Market Risk	Currency Risk	2,00%	5,480	1,563	28,53%
	Interest Rate Risk	10,00%	27,399	25,504	93,08%
Operational Risk		10,00%	27,399	40,958	149,49%
Всього		**60,00%**	**164,395**	**82,542**	**50,21%**

During 2013 no changes were made in the model "ability to utilise risks".

52) Management of Individual Risks

In 2013 no significant changes in management procedures (and reporting) of the individual Bank's risk has happened. These procedures developed in accordance with the norms of the Federal Department of financial supervision of Germany "Minimum requirements for risk management" (MaRisk") and the requirements of the Basel II accord.

The Bank makes a special emphasis on a common understanding of the factors causing the risks and the need for constant analysis of possible events/scenarios and their possible negative effects. The goals of risk management include the timely identification of significant risks, their full understanding and proper description - for example, ensuring that no single product or service is not offered before until all parties have a full understanding of their nature.

All limits for individual risks within which the Bank positions its own risk strategy are consistent and monitored at group level. Limited deviations are only allowed for stricter limits (i.e. in cases where such limits are stipulated by local law, e.g. for currency risk) or if approved by the Group Risk Management Committee.

53) Credit Risk

Credit risk is defined as the danger that the party to a credit transaction will not be able or will only partially be able to meet its contractually agreed obligations towards the Bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk faced by the Bank.

Credit default risk from customer credit exposures

Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on a thorough implementation of the Bank’s lending principles:

- intensive analysis of the debt capacity of the Banks’ clients;
- careful documentation of the credit risk assessments;
- rigorous avoidance of over indebting the Bank’s clients;
- building a long-term relationship with the client and maintaining regular contact;
- monitoring of loan repayment;
- practising tight arrears management;
- exercising strict collateral collection in the event of default;
- investing in well-trained and highly motivated staff;
- implementing carefully designed and well-documented processes;
- rigorous application of the “four-eyes principle”.

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk. The processes are distinguished mainly in terms of segregation of duties which is fully implemented for individually significant credit exposures that are risk-relevant.

The information collected from the clients range from audited financial statements to self-declarations. The key criteria for credit exposure decision are based on the financial situation of the client in particular for individually insignificant credit exposures - the liquid funds and creditworthiness of the client and the collateral requirements.

As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the Bank and the higher the turnover of the client with the Bank, the lower will be the collateral requirements.

The decision-making process ensures that all credit decisions on individually significant exposures, and all decisions on individually insignificant exposures, are taken by a credit committee. As a general principle, the Bank considers it very important to ensure that its lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

The key indicator of quality of credit portolio is share of credit exposure in arrears, including overdue credit exposures and credit exposures with revised contractual terms for the worse for the Bank through inability of the borrower to fulfill its obligations.

Credit exposures in arrears are defined credit exposures for which contractual interest and/or principal payments are overdue. The higher quality of the loan portfolio than an average one in a banking sector reflects the efficiency of adopted credit risk management model.

The Bank performs constant monitoring of the quality of credit debt. The strategy of early response to the problems with repayment of the loan includes communication with the customer regarding the establishment of the causes that led to the impossibility of fulfillment of his obligations. Depending on these grounds, the Bank takes a decision on possible revision of the existing conditions of the contract (if the probability of overcoming the situation of insolvency is high), or in the case of foreclosure on the pledged property otherwise.

Additionally, the quality of credit operations is assured by the credit controlling department which is responsible for monitoring the Bank's credit operations and compliance with its procedures.

The efficiency of such system for credit risk management is supported by relatively low level of overdue credit indebtedness of the Bank.

Credit portfolio risk from customer lending

Portfolio credit risk is the risk of default by a set of borrowers at the same time, usually caused by the influence of negative factors that affect a significant number of loans with similar characteristics.

Occurs primarily through the existence of the loan portfolio concentrations of credit risk, that is, a significant group of loans that have common characteristics and can therefore be affected by the influence of negative factors of influence. Example of concentrations can be the following: geographic, sectoral, product, etc.

The main method of reduction of portfolio credit risk is the diversification of the credit portfolio.

Principal activity of the Bank is lending to small and medium enterprises contribute to the diversification of the loan portfolio, and, accordingly, leads to minimize the risk by geographical distribution and economic sectors.

The structure of the loan portfolio is regularly reviewed by the Credit Portfolio Risk Committee in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

The Bank follows a guideline that limits concentration of risk in its loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require an approval by the Group Risk Management Committee. No single large credit exposure may exceed 25% of the Bank's regulatory capital.

Individually significant credit exposures are closely monitored by the Credit Risk Management Committee and the Monitoring and Provisioning Committee. For such credit exposures, the committee assesses whether any objective evidence of impairment exists, i.e.:

- more than 30 days in arrears
- delinquencies in contractual payments of interest or principal
- initiation of bankruptcy proceedings
- any specific information about the customer regarding the impossibility of execution of his obligations
- significant negative changes in the customer's market environment
- the general economic situation

Additionally, the realisable net value of collateral held is taken into account when deciding on the allowance for impairment. For the calculation of individual impairment, a discounted cash flow approach is applied. Refer to Note 38 for the amount of individual impairment of credit exposures to customers.

Individually significant credit exposures for which there is no need for an individual impairment allowance are covered by portfolio-based impairment allowances.

For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days, a lump-sum approach is applied; the impairment is determined according to the number of days in arrears.

For all unimpaired credit exposures a portfolio-based impairment is calculated.

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

	Business loans	Agricul-tural loans	Housing improve-ment loans	Financ e leases	Consum er loans	Other loans	Total
Neither past due nor impaired loans	**1,348,527**	**384,295**	**5,198**	**3,442**	**10,255**	**7,182**	**1,758,899**
Past due but not impaired loans	**31,160**	**3,244**	**103**	**-**	**140**	**15**	**34,662**
1 to 7 days	19,803	2,499	53	-	31	12	**22,398**
8 to 30 days	10,393	745	50	-	109	3	**11,300**
> 365 days	964	-	-	-	-	-	**964**
		-	-	-	-	-	
Collectively impaired loans	**19,344**	**1,240**	**424**	**-**	**3,638**	**4,029**	**28,675**
0 days	7,151	11	75	-	3,369	4,029	**14,635**
1 to 7 days	441	-	-	-	-	-	**441**
8 to 30 days	508		-	-	-	-	**508**
31 to 60 days	3,448	1,126	58	-	75	-	**4,707**
61 to 90 days	1,260	-	86	-	115	-	**1,461**
91 to 180 days	2,366	-	205	-	72	-	**2,643**
181 – 365 days	3,004	103	-	-	7	-	**3,114**
> 365 days	1,166	-	-	-	-	-	**1,166**
Individually impaired loans	**86,321**	**9,451**	**-**	**11,993**	**-**	**-**	**107,765**
0 days	39,478	3,233	-	11,993	-	-	**54,704**
1 to 7 days	2,353	-	-	-	-	-	**2,353**
8 to 30 days	6,709	-	-	-	-	-	**6,709**
31 to 60 days	1,997	-	-	-	-	-	**1,997**
61 to 90 days	976	1,928	-	-	-	-	**2,904**
91 to 180 days	6,399	636	-	-	-	-	**7,035**
181 – 365 days	4,574	1,332	-	-	-	-	**5,906**
> 365 days	23,835	2,322	-	-	-	-	**26,157**
Total Individually impaired loans	**1,485,352**	**398,230**	**5,725**	**15,435**	**14,033**	**11,226**	**1,930,001**

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

	Business loans	Agricul-tural loans	Housing improve-ment loans	Financ e leases	Consum er loans	Other loans	Total
Neither past due nor impaired loans	**1,088,386**	**290,175**	**22,198**	**11,053**	**14,364**	**10,067**	**1,436,243**
Past due but not impaired loans	**30,550**	**4,430**	**350**	**1,166**	**114**	**13**	**36,623**
1 to 7 days	19,628	2,897	147	1,166	48	-	**23,886**
8 to 30 days	8,499	1,533	203	-	66	13	**10,314**
91 to 180 days	573	-	-	-	-	-	**573**
181-365 days	250	-	-	-	-	-	**250**
> 365 days	1,600	-	-	-	-	-	**1,600**
Collectively impaired loans	**29,081**	**987**	**518**	**-**	**3,848**	**5,842**	**40,276**
0 days	16,958	30	78	-	3,598	5,842	**26,506**
1 to 7 days	302	-	-	-	-	-	**302**
8 to 30 days	1,739	-	-	-	2	-	**1,741**
31 to 60 days	1,495	146	185	-	155	-	**1,981**
61 to 90 days	1,197	198	67	-	14	-	**1,476**
91 to 180 days	3,835	294	146	-	44	-	**4,319**
181 – 365 days	3,177	319	42	-	35	-	**3,573**
> 365 days	378	-	-	-	-	-	**378**
Individually impaired loans	**122,352**	**16,054**	**-**	**-**	**65**	**-**	**138,471**
0 days	37,371	466	-	-	-	-	**37,837**
1 to 7 days	1,632	-	-	-	-	-	**1,632**
8 to 30 days	6,898	854	-	-	-	-	**7,752**
31 to 60 days	2,913	3,357	-	-	-	-	**6,270**
61 to 90 days	1,500	1,479	-	-	-	-	**2,979**
91 to 180 days	14,797	1,171	-	-	-	-	**15,968**
181 – 365 days	12,337	925	-	-	-	-	**13,262**
> 365 days	44,904	7,802	-	-	65	-	**52,771**
Total	**1,270,369**	**311,646**	**23,066**	**12,219**	**18,391**	**15,922**	**1,651,613**

As noted above, the Bank uses the practice of change of contract terms (restructures of credit exposures) in cases, when it is expected that this change will lead to the normalization of credit repayment (i.e. if there is a high probability of restoring solvency of the borrower).

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the Bank's clients currently operate. Restructuring follows a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

Restructured loans, in turn, are divided into groups according to the level of credit risk. In particular, separately allocated restructured impaired loans and restructured loans for which the probability of impairment is high (potentially bad loans).

The table below presents the customer loan exposures which were restructured as at 31 December 2013:

Loans to customers	Loan portfolio	Watch restructured		Impaired restructured		Total restructured	
		Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio
Business	1,485,352	79,630	5,36%	50,678	3,41%	130,308	8,77%
Agricultural	398,230	19,487	4,89%	1,311	0,33%	20,798	5,22%
Housing improvement	5,725	112	1,96%	75	1,31%	187	3,27%
Finance leases	15,435	9,104	58,98%	-	0,00%	9,104	58,98%
Consumer	14,033	28	0,20%	3,369	24,01%	3,397	24,21%
Other	11,226	-	0,00%	4,018	35,79%	4,018	35,79%
Total	**1,930,001**	**108,361**	**5,61%**	**59,451**	**3,08%**	**167,812**	**8,69%**

The table below presents the customer loan exposures which were restructured as at 31 December 2012:

Loans to customers	Loan portfolio	Watch restructured		Impaired restructured		Total restructured	
		Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio	Restruc-tured loans	Restructured loans in % of loan portfolio
Business	1,270,369	107,652	8,48%	64,689	5,09%	172,341	13,57%
Agricultural	311,646	25,177	8,08%	1,350	0,43%	26,527	8,51%
Housing improvement	23,066	185	0,80%	78	0,34%	263	1,14%
Finance leases	12,219	9,462	77,44%	-	-	9,462	77,44%
Consumer	18,391	23	0,12%	3,599	19,57%	3,622	19,69%
Other	15,922	-	-	5,843	36,70%	5,843	36,70%
Total	**1,651,613**	**142,499**	**8,63%**	**75,559**	**4,57%**	**218,058**	**13,20%**

Collateralisation is the second most important way to minimize credit risk, after carrying out a detailed credit analysis of the borrower.

The Bank provides unsecured loans, but this practice is used only for very small loans and short term loans with very low risk.

Other loans are secured by movable and non-movable property, mortgage – as a rule.

The fair value of collateral was determined by internal appraisers of the Bank, based on active market prices.

The fair value of collateral covering the total loan portfolio at 31 December 2013 is set out below:

	Business Loans	Agricultural loans	Housing improvement loans	Finance leases	Consumer loans	Other loans	Total
Fair value of collateral							
- residential real estate	667,009	22,830	199	-	11,295	15,693	**717,026**
- other real estate	1,144,353	164,434	-	-	1,645	365	**1,310,797**
- cash deposits	16,631	2,360	-	-	2,333	83	**21,407**
- vehicles	772,130	530,643	36	-	1,012	449	**1,304,270**
- other assets	53,709	106,705	-	-	-	-	**160,414**
Total	**2,653,832**	**826,972**	**235**	**-**	**16,285**	**16,590**	**3,513,914**

The fair value of collateral covering the total loan portfolio at 31 December 2012 is set out below:

	Business Loans	Agricultural loans	Housing improvement loans	Finance leases	Consumer loans	Other loans	Total
Fair value of collateral							
- residential real estate	662,606	27,943	451	-	10,021	20,984	**722,005**
- other real estate	1,149,995	220,287	-	-	2,149	1,086	**1,373,517**
- cash deposits	16,343	655	-	-	1,973	78	**19,049**
- vehicles	601,792	433,965	36	-	900	3,643	**1,040,336**
- other assets	73,281	86,656	-	-	-	-	**159,937**
Total	**2,504,017**	**769,506**	**487**	**-**	**15,043**	**25,791**	**3,314,844**

The group policy on the treatment of repossessed property requires that all goods obtained due to customer defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. In addition, repossessed property is sold at the highest possible price, typically via public auction, and any remaining balance after the payment of principal, interest and penalty is credited to the customer's account. Most repossessed property consists of land and buildings (Refer to Note 43).

54) Financial Risks

Counterparty and issuer risk

The objective of counterparty and issuer risk management is to prevent the Bank from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial bank) or issuer to fulfil its obligations towards the Bank.

This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time
- replacement risk: the risk of losing an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market
- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security

Counterparty and issuer risks evolve especially from the Bank's need to invest its liquidity reserve, to conclude foreign exchange transactions, or to buy protection on specific risk positions. The liquidity is placed in the interbank market with short maturities, typically up to one month. Foreign exchange transactions are also concluded with short maturities, generally within one day.

Furthermore, the Bank also has an exposure towards the National Bank of Ukraine. There are two reasons for this. Firstly, the NBU maintains the correspondent accounts of local banks in UAH. Secondly, the NBU requires financial institutions to hold a mandatory reserve in special accounts, the size of which depends on:

(a) the amount of deposits taken from customers,
(b) the amount of short-term funds in foreign currency (shorter than 6 months, excluding borrowings from supranational institutions) borrowed from abroad,
(c) the volume of loans in foreign currency disbursed to clients with no regular income in foreign currency. (Refer to Note 37).

The Bank cannot avoid this risk, but monitors its level on the ongoing basis.

The counterparty and issuer risks are managed according to the ProCredit Group Counterparty Risk Management Policy (incl. Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the ProCredit Group Treasury Policy, which specifies the set of permissible transactions and rules for their processing. As a matter of principle, only large international banks of systemic importance and local banks (mainly the biggest state-owned banks) with a good reputation and financial standing are eligible counterparties. As a general rule, the Bank applies limits of up to 10% of its regulatory capital on exposures to banking groups in non-OECD countries and up to 25% on those in OECD countries. Higher limits are subject to approval by the Group Assets and Liabilities Committee (Group ALCO).

The Bank ensures through its Assets and Liabilities Committee and Market Risk Management Committee that each counterparty is approved, including a limit for the maximum exposure, based on a thorough analysis, performed by the risk management department in collaboration with the treasury department.

Group policy forbids the Bank to conduct any speculative trading activities. However, for the purpose of investing its liquidity reserve, the Bank is allowed to buy and hold securities (including T-bonds issued by the government and Deposit Certificates issued by the National Bank of Ukraine). The inherent issuer risk is managed by the provisions of the Bank's conservative Treasury Policy, which is compliant with the ProCredit Group Treasury Policy. In 2013, the Bank shall not invest in any securities; in addition, part of the securities in the Bank portfolio issued by the government, was sold in the market.

The following table provides an overview of the types of counterparties and issuers with whom the Bank concludes transactions:

	Note	**2013**	**in % to Regulatory Capital**	**2012**	**in % to Regulatory Capital**
Banking groups		48,662	14,5	256,626	91,5
Ukraine	33,36	5,670	*1,7*	64,486	*23,0*
OECD banks	33,36	33,978	*10,1*	188,739	*67,3*
Non-OECD banks	33	9,014	*2,7*	3,401	*1,2*
National Bank of Ukraine		210,457	62,3	157,681	56,3
Mandatory reserves	34	93,348	*27,6*	103,248	*36,8*
Other exposures	33	117,109	*34,7*	54,432	*19,5*
Government	35, 39	42,916	13,4	65,325	23,3
Total		**302,035**	**90,2**	**479,632**	**171,1**

Interbank placements, interbank loans, foreign exchange transactions and derivative transactions are transactions with banks which are subdivided into those based in OECD countries and those in non-OECD countries.

The distribution of the central bank and government exposures across currencies is shown in the following table as at 31 December 2013:

	UAH	**USD**	**EUR**	**Total**
National Bank of Ukraine	196,083	9,920	4,454	210,457
Mandatory reserves	78,974	9,920	4,454	93,348
Other exposures	117,109	-	-	117,109
Government	42,916	-	-	42,916
Total	**238,999**	**9,920**	**4,454**	**253,373**

The distribution of the central bank and government exposures across currencies is shown in the following table as at 31 December 2012:

	UAH	**USD**	**EUR**	**Total**
National Bank of Ukraine	116,520	24,891	16,270	157,681
Mandatory reserves	62,088	24,891	16,270	103,249
Other exposures	54,432	-	-	54,432
Government	45,135	20,190	-	65,325
Total	**161,655**	**45,081**	**16,270**	**223,006**

The following table provides an overview of how the Bank's counterparty and issuer risk is broken down by product.

	2013	**%**	**2012**	**%**
Nostro accounts	165,771	54%	152,613	36%
Interbank placements	-	0%	104,014	25%
Securities	42,916	15%	65,325	15%
Mandatory reserves	93,348	31%	103,248	24%
Total	**302,035**	**100%**	**425,200**	**100%**

As at 31 December 2013 no funds were placed on the interbank market.

Foreign currency risk

The assets and liabilities of the Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Despite the efforts of the National Bank of Ukraine and the government to reduce the level of dollarization of the economy and boost operations in rate, foreign currency is still widely used. On the one hand, much of the savings kept in the hard currency that is the result of devaluation expectations in the medium and long term time horizon. On the other hand, the domestic economy is largely open, and foreign currency loans widely available (for example, to finance import operations), although it is prohibited for certain categories of customers. As a result, foreign currencies still play a major role for the Bank.

Currency risk management is guided by the Group Foreign Currency Risk Management Policy.

Adherence to this policy is constantly monitored by a market risk unit at group level; amendments and exceptions to this policy are decided by the Group Risk Management Committee and by the Group Assets and Liabilities Committee.

The Bank’s treasury department is responsible for the continuous monitoring of developments in exchange rates and foreign currency markets.

This unit carries out operating management of the currency position. The actual level of currency risk is monitored by the Risk Management Department on a daily basis.

The Bank's policy prohibits the opening of a long or short currency positions for speculative purposes.

In 2013, the Bank maintained its currency position within 5% of the regulatory capital of the Bank for each individual currency.

Information about the level of currency risk and reports on the situation on the currency markets are regularly considered by the ALCO the Bank, who are authorized to make tactical and strategic decisions regarding the treasury operations.

In cases where there is an objective need in the opening of long foreign exchange position over the limits stated in the policy (for example, due to the actions of the specific requirements), the Bank shall approve such transaction on the Group ALCO. In cases of violations of currency position and limits established by the Group, a Risk Management Department of the Bank reports that the Group ALCO and proposes measures on normalization of the situation.

The Bank aims to close currency positions and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Bank has established two levels of control: early warning indicators and limits. This mechanism helps to ensure that the bank’s total OCP does not exceed 10% of regulatory capital. The early warning indicators (5% of regulatory capital for the open currency position in any single currency and 7.5% for the aggregate open currency position) help to detect situations when actions should be taken in order to correct developments in the open currency position and prevent a possible breach of the limit.

The Bank’s open currency position is influenced by the specific NBU requirements. The central bank has set special regulations for the calculation of OCPs for local banks, which force those with high foreign currency loan-loss provision volumes to maintain short OCPs (in line with IFRS) in corresponding volumes. In spite of this requirement, the Bank managed to close its short OCP for USD and even enter limited long OCP in late 2013. This was mainly achieved by purchasing of state bonds, indexed to US dollar, and (partly) by performing loan write-offs in accordance with local accounting standards.

The following table shows the distribution of the Bank’s statement of financial position items across its material operating foreign currencies (USD and EUR) as of 31 December 2013:

	EUR	**USD**	**Other currencies**
Assets			
Cash and cash equivalents and mandatory reserves	15,428	37,642	453
Financial assets available at fair value through profit or loss	-	42,916	-
Due from other banks	17,939	55,457	10,232
Loans and advances to customers	130,239	522,793	-
Investment securities avaliable-for-sale	182	-	-
Other financial assets	649	1,978	-
Total assets	**164,437**	**660,787**	**10,685**
Liabilities			
Due to other banks	-	12,794	-
Customer accounts	163,700	441,820	9,988
Other borrowed funds	12	159,997	-
Other financial liabilities	2,307	2,558	64
Subordinated debt	-	48,327	-
Total liabilities	**166,019**	**665,496**	**10,052**

Net position	**(1,582)**	**(4,709)**	**633**
Credit commitments	**5,594**	**5,469**	**-**

The following table shows the distribution of the Bank's statement of financial position items across its material operating foreign currencies (USD and EUR) as of 31 December 2012:

	EUR	**USD**	**Other currencies**
Assets			
Cash and cash equivalents and mandatory reserves	44,598	170,634	5,475
Financial assets available at fair value through profit or loss	-	44,000	-
Due from other banks	-	71,704	-
Loans and advances to customers	133,579	505,330	-
Investment securities avaliable-for-sale	174	20,190	-
Total assets	**178,351**	**811,858**	**5,475**
Liabilities			
Customer accounts	174,209	498,184	3,627
Other borrowed funds	-	253,489	-
Other financial liabilities	1,300	403	27
Subordinated debt	-	48,351	-
Total liabilities	**175,509**	**800,427**	**3,654**
Net position	**2,842**	**11,431**	**1,820**
Credit commitments	**10,443**	**4,090**	**-**

To assess the Bank's currency risk for risk-bearing capacity, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period is determined to be one year and the look-back period is five years. Correlation effects are included in the analysis by taking into account the historical parallel movements of each currency in which the bank has significant currency positions (i.e. USD and EUR). The results are shown in the following table:

	2013	**2012**
Maximum loss (VaR), 99% confidence	(838)	(1,563)
Average loss in case confidence interval is exceeded	(919)	(1,750)

Overall, in 2013 the foreign currency risk was kept as low as possible, despite restrictions caused by the regulatory requirements for calculating open currency positions.

Interest rate risk

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities, e.g. if a three-year fixed interest rate loan is funded with a six-month term deposit. This would expose the Bank to the risk that the funding costs will increase before the maturity date of the loan, thus reducing the Bank's margin on the loan.

Most of the Bank's outstanding loans have fixed interest rates. The average maturity of these loans exceeds that of customer deposits, thus exposing the Bank to interest rate risks as described above. Given that financial instruments to mitigate interest rate risks (hedges) were not available on the Ukrainian market - the Bank was obliged to monitor interest rate risks closely.

The Bank's approach to measuring and managing interest rate risk is guided by the Group Interest Rate Risk Policy.

The main indicator for managing interest rate risk measures the potential impact on the economic value of all assets and liabilities. The indicator analyses the potential loss that the Bank would incur in the event of very unfavourable movements (shocks) in interest rates on assets and liabilities. For EUR or USD, a parallel shift in the interest rate curve of +/- 200 bps is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last five years. The potential economic impact on the Bank's statement of financial position must not exceed 10% of its regulatory capital for all currencies. A reporting trigger has been set at 5% per currency to provide an early warning signal.

Also regularly analysed is the potential impact of interest rate risk on the Bank's expected earnings over the next three months. This measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective.

Deviations from the Group Interest Rate Risk Policy and violations of interest rate limits are subject to approval by the Group Risk Management Committee.

Interest rate risk is regularly discussed by the Bank's Market Risk Management Committee. The indicators are also reported to the Group Risk Management Committee.

In order to limit the interest rate risk, the Bank aims to align the maturities of those balance sheet items which generate interest earnings and interest expenses. Accordingly, the Bank continued increase share of loans with variable interest rates in total loan portfolio.

The Bank finished the year 2013 with a figure of 9.3% (2012: 8.8%) for the economic value impact to capital ratio, compared to the 10.0% limit. Taking into account this figure as well as other currently monitored indicators and trends in development of interest-bearing balance-sheet items, the Bank's interest rate risk is assessed as medium.

Liquidity risk

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

Liquidity risk management system tailored to the circumstances of the business model of the Bank.

Thus, the Bank's business model is based on lending large number of small and medium enterprises (meaning high diversification of the loan portfolio). This approach ensures a constant source of liquid resources for the repayment of the loan portfolio, especially given the absence of significant concentrations of liquidity (mainly as a result of annuity form of loan repayment and relatively low debt problem).

Thus, the Bank's business model is based on lending large number of small and medium enterprises (meaning high diversification of the loan portfolio). This approach ensures a constant source of liquid resources for the repayment of the loan portfolio, especially given the absence of significant concentrations of liquidity (mainly as a result of annuity form of loan repayment and relatively low debt problem).

On the other hand, the loan portfolio is funded from two main sources: mainly customer funds are used to obtain funds in local currency, while customer funds and loans from international financial organizations are used to obtain funds in foreign currency.

Given the tendency to reduce the amount of funds raised in foreign currency, Bank's dependency on the capital market can be assessed as low.

The Bank's ALCO determines the liquidity strategy of the Bank and sets the liquidity risk limits. The treasury department manages the Bank's liquidity on a daily basis and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits are constantly monitored by the risk management department.

The standards applied by the Bank in the management of liquidity are based on regulatory requirements, Group liquidity risk management policy and the Group treasury policy. Any violation of limits and all exceptions to these policies are approved by the Group Risk Management Committee.

Treasury manages liquidity on a daily level using an approach based on cash flow analysis. This method was designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast liquidity risk indicators.

The key tools for measuring liquidity risks is a forward-looking liquidity gap analysis, which shows the contractual maturity structure of the assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of the future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Bank's liquidity situation in a worst-case scenario (stress test).

To analyze the liquidity risk the Bank on a regular basis uses the following ratios and indicators:
a) regulatory ratios relating to liquidity;
b) analysis of liquidity gaps by maturity;
c) the amount of highly liquid resources for each of the major currencies;
d) sufficient liquidity indicator (main figure to estimate a short-term liquidity level. It compares the amount of available liquid assets and liabilities expected to mature within the next 30 days. Bank supports this ratio at no less than 1.0, which means that the Bank always has sufficient funds to made all the repayments which are expected within the next 30 days);;
e) ratio of borrowing from interbank market;
f) ratio of interbank overnight loans.

This is complemented by early warning indicators, the foremost being the highly liquid assets indicator, which relates highly liquid assets to customer deposits.

The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines which can be drawn by the Bank with some time delay and other assets which take some time to liquidate.

The Group Liquidity Risk Management Policy prescribe the close monitoring of early warning indicators. If the highly liquid asset indicator drops below 20%, if the short-term liquidity position becomes negative, or if the depositor concentration (10 largest client's deposits) rises above 20%, the Bank's ALCO and the Group ALCO or Group Risk Management Committee must be involved in decisions on appropriate measures.

In order to protect the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and the target volume of Bank's liquidity reserve is determined by the ALCO. The main liquidity reserve of the Bank is a standby line provided by the ProCredit Holding. During 2013, the Bank had standby line of USD 11.0 million to use under stress conditions to cover possible liquidity gaps.

The bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependency on a few large depositors. According to the Bank's internal guidelines a significant depositor concentration exists if the 10 largest depositors exceed 20% of total customer deposits. This serves as an early warning signal and requires that the reasons and the mitigating measures undertaken must be reported to the bank's ALCO and the Group Risk Management Committee.

The Bank is also minimising its dependency on the interbank market. The ProCredit group's policies stipulate that the total amount of interbank liabilities may not exceed 40% of total available lines and overnight funding may not exceed 4% of total liabilities.

During 2013, the liquidity level remains very strong due to the following factors:

- In foreign currency: the Bank executed the scheduled repayment of loans from international organizations, and encouraged a slight reduction in the deposit base with the aim to increase the share of deposits in the national currency.
- In UAH: the Bank achieved substantial growth of the Deposit portfolio, however, almost all the increase of the money was used to finance lending operations and partial redemption of bonds issued.

The Bank remained within all liquidity limits over the year - internal and external one - including the regulatory liquidity limits set by the NBU. The table below shows the list of main liquidity indicators:

Liquidity indicator	**Limit**	**2013**	**2012**
<u>Regulatory liquidity ratios</u>			
Instant liquidity ratio (H4)	Not less than 20,0%	34,28%	36,29%
Current liquidity ratio (H5)	Not less than 40,0%	46,98%	66,88%
Short-term liquidity ratio (H6)	Not less than 60,0%	70,22%	80,60%
<u>Internal liquidity ratios</u>			
Sufficient liquidity indicator	Not less than 1,0	1,6	2,4
Interbank market indicator	Not higher than 40,0%	9,30%	0,00%
Overnight funding indicator	Not higher than 4,0%	0,00%	0,00%

Based on the current very strong liquidity level and favourable deposit-base developments as at 31 December 2013, the liquidity risk is assessed as middle.

The following table shows the undiscounted future cash flows of the financial liabilities of the Bank according to their remaining contractual maturities at 31 December 2013. The remaining contractual maturity is defined as the period between the reporting date and the contractually agreed due date of the liability, or the due date of a partial payment under the contract for liability.

	Up to 1 month	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Liabilities							
Due to other banks	25,811	-	-	-	-	-	**25,811**
Customer accounts	1,210,355	223,044	466,408	10,671	1,140	5,015	**1,916,632**
Debt securities in issue	-	696	2,087	22,056	-	-	**24,839**
Other borrowed funds	192	-	105,554	48,752	10,244	-	**164,742**
Subordinated debt	-	-	4,128	4,078	55,652	-	**63,859**
Other financial liabilities	10,102	-	-	-	-	-	**10,102**
Total potential future payments for financial obligations	**1,246,460**	**223,740**	**578,177**	**85,557**	**67,036**	**5,015**	**2,205,985**
Commitments and contingencies	4,718						**4,718**

The following table shows the undiscounted future cash flows of the financial liabilities of the Bank according to their remaining contractual maturities at 31 December 2012.

	Up to 1 month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total
Liabilities							
Customer accounts	1,037,329	189,853	368,337	10,998	2,742	7,301	**1,616,560**
Debt securities in issue	-	3,366	10,09	13,464	106,733	-	**133,661**
Other borrowed funds	140	-	73,915	105,402	89,318	-	**268,775**
Subordinated debt	-	-	3,003	9,012	33,113	27,762	**72,890**
Other financial liabilities	5,518	-	-	-	-	-	**5,518**
Total potential future payments for financial obligations	**1,042,987**	**193,219**	**455,353**	**138,876**	**231,905**	**35,063**	**2,097,404**
Commitments and contingencies	6,305	-	-	-	-	-	**6,305**

Since not all cash flows will occur in the future as specified by contract terms (for example, despite the opportunity to withdraw all funds from current accounts within one day, usually in general they maintained a relatively stable balance), the Bank applies assumptions, especially regarding deposit withdrawals.

The core assumptions used for the purposes of calculating the internal liquidity indicators are as follows:

- 50% of interbank liabilities contractually due at sight will be withdrawn in the next month: another 50% will be withdrawn within the following three months.
- 20% of customer deposits contractually due at sight will be withdrawn within the next month, 80% will be withdrawn later.
- 5% of exposures guaranteed by the bank will require a payment within the next month.
- 20% of credit lines which the bank has committed to its customers, but which are currently undrawn, will be drawn within the next month.

The goal is always to have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the Bank's available assets should always exceed the expected liabilities, as calculated by applying the above assumptions.

The following table summarises the results of this approach to measuring liquidity risk and shows the distribution of liquidity-relevant positions across certain time buckets as at 31 December 2013. The distribution is based on an internal model of liquidity management of the Bank, which takes into account the main expected cash flows of the principal debt of financial instruments (i.e. excluding future accrued interest).

	Up to 1 month	**1 - 3 months**	**3 - 6 months**	**7 - 12 months**	**More than 1 year**	**Total**
Assets						
Cash on hand	124,644	-	-	-	-	**124,644**
Mandatory reserves in National Bank of Ukraine	93,348	-	-	-	-	**93,348**
Cash balances with the National Bank of Ukraine (other than mandatory reserves)	117,109	-	-	-	-	**117,109**
Correspondent accounts and overnight placements with other banks	89,293	-	-	-	-	**89,293**
T-bills & marketable securities	32,916	-	-	-	-	**32,916**
Short-term placements with other banks	-	-	-	-	-	**-**
Loans and advances to customers	72,764	182,307	229,205	485,342	906,457	**1,876,075**
Total Assets	**530,075**	**182,307**	**229,205**	**485,342**	**906,457**	**2,333,386**
Unused irrevocable and unconditional credit commitments	87,923	-	-	-	-	**87,923**
Total	**617,998**	**182,307**	**229,205**	**485,342**	**906,457**	**2,421,309**
Due to other banks	25,789	-	-	-	-	**25,789**
Customer Accounts (other than TDAs)	212,659	42,532	63,798	127,595	616,711	**1,063,295**
Other Borrowed Funds (Liabilities to PCH)	-	-	17,762	48,846	84,489	**151,097**
Other Borrowed Funds (other than liabilities to PCH)	127,480	204,294	185,845	243,935	13,556	**775,110**
Customer Accounts (TDAs)	-	-	-	-	20,665	**20,665**
Debt securities (bonds)	-	-	-	-	48,278	**48,278**
Total Liabilities	**365,928**	**246,826**	**267,405**	**420,376**	**783,699**	**2,084,234**
Undrawn loan commitments	29,212	-	-	-	-	**29,212**
Total	**395,140**	**246,826**	**267,405**	**420,376**	**783,699**	**2,113,446**
Expected liquidity gap	223,735	159,216	121,016	185,982	308,740	
Sufficient Liquidity Indicator	**1,6**					

The following table summarises the results of this approach to measuring liquidity risk and shows the distribution of liquidity-relevant positions across certain time buckets as at 31 December 2012.

	Up to 1 month	**1 - 3 months**	**3 - 6 months**	**7 - 12 months**	**More than 1 year**	**Total**
Assets						
Cash on hand	105,379	-	-	-	-	**105,379**
Mandatory reserves in National Bank of Ukraine	103,191	-	-	-	-	**103,191**
Cash balances with the National Bank of Ukraine (other than mandatory reserves)	54,432	-	-	-	-	**54,432**
Correspondent accounts and overnight placements with other banks	145,772	-	-	-	-	**145,772**
T-bills & marketable securities	45,135	-	-	-	20,190	**65,325**
Short-term placements with other banks	103,944	-	-	-	-	**103,944**
Loans and advances to customers	78,031	173,524	203,713	410,632	682 272	**1 548 172**
Total Assets	**635,884**	**173,524**	**203,713**	**410,632**	**702,462**	**2,126,215**
Unused irrevocable and unconditional credit commitments	87,923	-	-	-	-	**87,923**
Total	**723,807**	**173,524**	**203,713**	**410,632**	**702,462**	**2,214,138**
Customer Accounts (other than TDAs)	182,565	36,513	54,770	109,539	529,439	**912,826**
Other Borrowed Funds (Liabilities to PCH)	46	-	-	-	-	**46**
Other Borrowed Funds (other than liabilities to PCH)	-	-	48,846	17,762	182,182	**248,790**
Customer Accounts (TDAs)	112,725	181,985	138,577	196,101	19,144	**648,532**
Debt securities (bonds)	-	-	100,000	-	-	**100,000**
Subordinated debt	-	-	-	-	48,278	**48,278**
Total Liabilities	**295,336**	**218,498**	**342,193**	**323,402**	**779,043**	**1,958,472**
Undrawn loan commitments	6,305	-	-	-	-	**6,305**
Total	**301,641**	**218,498**	**342,193**	**323,402**	**779,043**	**1,964,777**
Expected liquidity gap	422,166	377,192	238,712	325,942	249,361	
Sufficient Liquidity Indicator	**2,4**					

The expected liquidity gap quantifies the potential liquidity needs within a time bucket if it has a negative value, and it shows a potential liquidity excess if it has a positive one. This calculation includes positive excess values from previous time buckets. On an operational level, the gap report is broken down into the most important currencies (UAH, USD and EUR).

Overall, the Bank considers its funding sources to be sufficiently diversified, especially given that the bulk of the Bank's funds are provided by a large number of customer deposits. On the other hand, the resources raised from international financial institutions declined in 2013; Bank's dependency on the capital market situation decreased correspondingly.

55) Operational Risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. In line with Basel II, the Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. A dedicated Operational Risk Management Policy was implemented in 2009 and has been developed and updated annually since then. The principles outlined in this document are designed to manage the Bank's operational risk exposure effectively. They are in compliance with Basel II requirements for the "standard approach" (as outlined in Section 276 of the German Ordinance on Solvency (*SolvV*)).

The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database. While the Corporate Culture, the Governance Framework, and Policies and Procedures define the basic cultural and organisational parameters, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database form the key instruments with which the risk management process is executed.

The overall objectives of this approach to the management of operational risks are
- understanding of key factors of operational risks of the Bank
- to be able to identify critical issues as early as possible
- to avoid losses caused by operational risks; and
- to ensure efficient use of the Bank's capital.

To achieve these goals the following tools and processes have been implemented within the framework outlined above. They are presented in the sequence in which they are used within the operational risk management process. This process is subdivided into the following phases: identification, evaluation, treatment, monitoring, documentation and communication, and follow up.

- **Identification**
  - Annual operational and fraud risk assessments
  - New risk approval (NRA) process
  - Risk identification and documentation in the Risk Event Database (RED)
  - Ad hoc identification of potential risks
- **Evaluation / quantification**
  - Agreed standards to quantify risks
- **Mitigation and treatment**
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurer or other party
- **Monitoring and control**
  - Process owners' responsibility to monitor risks
  - Key risk indicators (KRIs) and operational risk reports, risk bearing capacity calculation and monitoring
- **Communication, escalation, documentation**
  - Escalation levels to management bodies, regular reporting, risk committees
  - RED, management summary documents for risk events
- **Issue tracking / follow-up tables for material action plans**
  - Follow-up tools used in the Bank

To constantly enhance the professional standards of the Bank, in 2013 the Bank continued to make use of local training facilities, and also regional academies and the international ProCredit Academy in Fürth, Germany. Training programmes for candidates for management positions include various modules focusing explicitly on operational risk management. Annual risk awareness training is provided to all existing staff as well as to all newly hired employees.

Organisation of the risk management function

Responsibility for risk management at the Bank lies with the Management Board.

The risk management function comprises various organisational units, including the credit risk department and the risk management department, which include the market risk unit, operational risk unit and credit portfolio risk unit. Responsibility for capital management and for controlling risk bearing capacity lies with the risk management department as well. These four organisational units report to the Bank's Management Board and to the Bank's Market Risk Management and Credit Portfolio Risk Committees, which meet monthly, and to Operational Risk Management Committee, which meets quarterly. These units also report to the ALCO, which meets weekly. Committees are specialised with the aim to consider individual risks carefully such as market risks (ALCO, Market Risk Management Committee), credit risks (Credit Portfolio Risk Committee) and operational risks (Operational Risk Committee).

At the Bank, risk management is implemented and developed, in operational terms, by a risk management department which is an autonomous department within the Bank's organisation and which is not involved in any way with the Bank's customer service operations (credit or deposit business) or trading operations. The risk departments report regularly to the corresponding risk departments at ProCredit Holding.

The Bank's risk policies address all risk categories and set standards that enable risks to be identified early and to be managed appropriately. The risk management department carries out regular monitoring to ensure that the total volume of all risks incurred does not exceed the limits agreed, i.e., that the risk bearing capacity of the Bank is not exceeded, so that sufficient capital is available to cover even unlikely potential losses.

The respective risk positions of the individual banks are described in a standard General Risk Report which is generated at least quarterly. This risk report is provided to the local risk committees and to the Group Risk management function at ProCredit Holding.

F. Additional Notes

56) Fair Value of Financial Instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique (Refer to Note 7):

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

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

	Level 1	*Level 2*	*Level 3*	*Total*
Assets at fair value				
Securities designated at fair value through profit or loss	-	42,916	-	**42,916**
Investment securities available-for-sale	-	432	-	**432**
Total financial assets	**-**	**43,348**	**-**	**43,348**
Assets for which fair values are disclosed				
Cash on hand	322,549	-	-	**322,549**
Mandatory reserves in National Bank of Ukraine	-	93,348	-	**93,348**
Due to banks	-	-	-	**-**
Loans and advances to customers	-	1,817,542	-	**1,817,542**
Other assets (less derivative financial instruments)	-	8,498	-	**8,498**
Investment property	-	-	13,453	**13,453**
Office premises	-	-	53,000	**53,000**
Total assets for which fair values are disclosed	**322,549**	**1,919,388**	**66,453**	**2,308,389**
Liabilities for which fair values are disclosed				
Due to banks	-	25,798	-	**25,798**
Individuals accounts	-	1,348,367	-	**1,348,367**
Legal entities accounts	-	528,989	-	**528,989**
Other borrowed funds	-	156,264	-	**156,264**
Other liabilities (less derivative financial instruments)	-	14,584	-	**14,584**
Subordinated debt	**-**	48,327	**-**	**48,327**
Total liabilities for which fair values are disclosed	-	**2,122,329**	-	**2,122,329**

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

	Level 1	*Level 2*	*Level 3*	*Total*
Assets at fair value				
Investment securities available-for-sale	424	20,190	-	20,614
Financial assets available at fair value through profit or loss	-	45,135	-	45,135
Total financial assets	**424**	**65,325**	**-**	**65,749**

Bank decresed the volume of its portfolio of investments available for sale, which carried at cost in the statement of financial position. It was purchased bonds denominated in US dollars amounted UAH 20,190 thousand . As result, amount of portfolio at year end 2013 was UAH 432 thousand, compared to UAH 20,614 thousand at year end 2012.

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

		2013		**2012**
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	**322,549**	**322,549**	**300,363**	**300,363**
Due from other banks	**-**	**-**	**207,262**	**207,262**
Loans and advances to customers	**1,817,542**	**1,831,978**	**1,525,435**	**1,531,239**
Business loans	1,394,222	1,409,494	1,169,287	1,179,546
Agricultural loans	379,397	379,457	290,891	291,199
Housing improvement loans	5,318	5,318	22,258	22,182
Finance leases	14,908	11,401	10,930	6,304
Consumer loans	13,221	13,276	17,301	17,240
Other loans	10,476	13,033	14,768	14,768
Other financial assets	**8,498**	**8,498**	**7,692**	**7,692**
Total financial assets	**2,148,589**	**2,163,025**	**2,040,752**	**2,046,556**
Financial liabilities				
Due to other banks	**25,798**	**25,798**	**-**	**-**
Customer accounts	**1,877,356**	**1,883,465**	**1,578,208**	**1,573,465**
Current accounts of individuals	212,032	212,032	186,375	186,375
Current accounts of legal entities	424,221	424,221	357,838	357,838
Savings accounts of individuals	363,658	363,658	306,510	306,510
Savings accounts of legal entities	75,216	75,216	58,201	58,201
Term deposits of individuals	772,677	778,786	627,619	622,876
Term deposits of legal entities	29,552	29,552	40,765	40,765
Other liabilities to customers	-	-	900	900
Other borrowed funds	**156,264**	**156,496**	**253,493**	**258,034**
Debt securities in issue	**21,040**	**20,198**	**102,099**	**89,657**
Subordinated debt	**48,327**	**54,826**	**48,355**	**57,888**
Other financial liabilities	**14,584**	**14,584**	**10,559**	**10,559**
Total financial liabilities	**2,143,368**	**2,155,367**	**1,992,714**	**1,989,603**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a n orderly transaction between market participants at the measurement date.

The best evidence of fair value is the price at which a financial instrument is quoted in an active market. Where quoted market prices are not available, the Bank used valuation techniques. As disclosed in Note 7, generally valuation techniques used by the Bank do not require significant assumptions that would not be supported by observable market data.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument, credit risk of the counterparty and were as follows:

	2013	**2012**
Due from other banks	0.01% p.a. to 0.2% p.a.	0.01% - 13.5% p.a.
Loans and advances to customers	0.5% to 19% p.a.	0.5% - 27% p.a.
Business loans	8% to 20% p.a.	8% - 26% p.a.
Agricultural loans	16% to 30% p.a.	16% - 36% p.a.
Housing improvement loans	20% p.a.	26% p.a.
Finance leases	3.0% to 30% p.a.	0.5% - 50% p.a.
Consumer loans	8% to 20% p.a.	4% - 27% p.a.
Other loans	N/a	N/a
Investment securities available-for-sale	N/a	N/a
Other financial assets	N/a	N/a
Due to other banks	N/a	N/a
Customer accounts		
Current accounts of private individuals	N/a	N/a
Current accounts of legal entities	N/a	N/a
Savings accounts of private individuals	N/a	N/a
Savings accounts of legal entities	N/a	N/a
Term deposits of private individuals	0.5% to 18.1% p.a.	1.0% - 19.73% p.a.
Term deposits of legal entities	3.0% to 17.5% p.a.	0.001% - 28.5% p.a.
Other liabilities to customers	N/a	N/a
Other borrowed funds	4.08% to 8.0% p.a.	3.75% - 9.5% p.a.
Debt securities in issue	18% p.a.	20% p.a.
Subordinated debt	4.33% p.a.	3.75% p.a.
Other financial liabilities	N/a	N/a

57) Contingencies and Commitments

Legal proceedings
From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice, Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation
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.

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities, inability to recover recognised deferred tax assets and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Bank's financial position, results of operations and cash flows.

Transfer pricing.
On 1 September 2013 the Law "On Amendments to the Tax Code of Ukraine (Regarding Transfer Pricing)" came into force (the "TP Law"). The TP Law introduces special TP reporting that must be filed with the tax authorities by 1 May 2014. Additionally, the tax authorities are entitled to request transfer pricing documentation about controlled transactions. The taxpayers must provide such documentation within one month of receiving this request.

Based on these legislative requirements, the transactions between the Bank and related parties are subject to transfer pricing compliance and reporting. The Bank should thus file transfer pricing reporting with the tax authorities and be ready to provide relevant transfer pricing documentation at their request.

The Bank plans to prepare TP reporting and documentation on the controlled transactions in line with the requirements and terms foreseen by the tax legislation. Considering the recent implementation of these rules, there is no practice of their application by the tax authorities, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's approach and assess fines and penalties.

Operating lease commitments
The future minimum lease payments under non-cancellable operating leases according to the agreements for renting the buildings and spaces for ATMs location are as follows:

	2013	**2012**
Not later than 1 year	27,270	22,075
Later than 1 year and not later than 5 years	37,400	32,770
Later than 5 years	4,365	9,445
Total	**69,035**	**64,291**

Compliance with covenants

The Bank is subject to certain covenants relating primarily to its other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including an increase in the cost of borrowing and a declaration of default.

There are financial covenants under agreements with the International Financial Corporation (IFC) and Kreditanstalt für Wiederaufbau (KfW). In particular, the Bank is required to maintain a certain level of:
- risk weighted capital adequacy ratio
- liquid assets to short-term liabilities ratio
- fixed assets to capital ratio
- maximum exposure to a single party to capital ratio
- open credit exposure ratio
- portfolio at risk
- related party exposure ratio
- maturity gap to capital ratio
- maturity gap ratio
- group exposure ratio
- interest rate risk ratio

- open foreign currency position.

As at 31 December 2013, the Bank was not in breach of any financial covenants on the borrowings.

All of the other borrowed funds are expected to be repaid according to their contractually agreed schedules. Refer to Note 47.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit-related commitments are as follows:

	2013	2012
Import letters of credit	565	-
Guarantees issued	3,230	4,211
Performance bonds	923	2,094
Total credit-related commitments	**4,718**	**6,305**

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. In addition, as at 31 December 2013, cash deposits of UAH 1,752 thousand (2012: UAH 1,218 thousand) were held as collateral for irrevocable commitments under guarantees issued. For the amount of provisions for credit related commitments credit risk refer to Note 48.

Credit related commitments are denominated in currencies as follows:

	2013	2012
Ukrainian hryvnia	1,923	2,298
US dollars	-	24
Euros	2,795	3,983
Others		-
Total	**4,718**	**6,305**

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to the loss of an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

As at 31 December 2013, all commitments to extend credit are revocable and amounted to UAH 144,880 thousand (31 December 2013: all revocable and amounted to UAH 112,917 thousand).

Assets pledged and restricted

As at 31 December 2013 the Bank had pledged debt securities indexed to the US dollar with carrying value of UAH 9,191 thousand (2012: UAH 9,255 thousand) (Note 35) under loan received from German-Ukrainian Fund (Note 47) with carrying value of UAH 9,191 thousand (2012: 9,137 thousand).

At 31 December 2013, the Bank has no assets pledged as collateral.

58) Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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.

At 31 December 2013, the outstanding balances with related parties were as follows:

	Parent company	**Other significant share-holders**	**Entities under common control**	**Key manage-ment personnel**
Outstanding balance on corresponding account	-	-	32,133	-
Gross amount of loans and advances to customers (contractual interest rate: 10-16.5%)	-	-	-	115
Other assets	933	-	101	-
Customer accounts (contractual interest rate: 0%-0.2%)	-	-	1	156
Other borrowed funds (contractual interest rate: USD:2.5%- 5.96%; UAH - 14.43%)	190	93,491	-	-
Other liabilities	1,018	-	50	-
Subordinated debt (contractual interest rate: 7.1% - 13.0%)	48,327	-	-	-

The income and expense items with related parties for the year 2013 were as follows:

	Parent company	**Other significant share-holders**	**Entities under common control**	**Key manage-ment personnel**
Interest income	-	-	161	13
Interest expense	(5,076)	(6,761)	-	-
Other operating income	70	-	12	-
Administrative and other operating expenses other than key management remuneration	(11,722)	(23)	(8,165)	-
- including management services	(10,169)	-	-	-

Aggregate amounts lent to and repaid by related parties during 2013 were:

	Parent company	**Other significant share-holders**	**Entities under common control**	**Key manage-ment personnel**
Amounts repaid by related parties during the period	-	-	-	48

At 31 December 2012, the outstanding balances with related parties were as follows:

	Parent company	**Other significant share-holders**	**Entities under common control**	**Key manage-ment personnel**
Gross amount of loans and advances to customers (contractual interest rate: 10-16.5%)	-	-	-	146
Other assets	68	-	78	-
Customer accounts (contractual interest rate: 0%-0.2%)	-	-	42	10
Other borrowed funds (contractual interest rate: USD:2.5%- 5.96%; UAH - 14.43%)	83	155,372	-	-
Other liabilities	369	-	87	-
Subordinated debt (contractual interest rate: 7.1% - 13.0%)	48,355	-	-	-

The income and expense items with related parties for the year 2012 were as follows:

	Parent company	**Other significant share-holders**	**Entities under common control**	**Key manage-ment personnel**
Interest income	-	-	-	23
Interest expense	(11,351)	(10,641)	-	-
Other operating income	64	-	8	-
Administrative and other operating expenses other than key management remuneration	(12,078)	(15)	(7,191)	-
- including management services	(11,321)	-	-	-

Aggregate amounts lent to and repaid by related parties during 2012 were:

	Parent company	**Other significant share-holders**	**Entities under common control**	**Key manage-ment personnel**
Amounts repaid by related parties during the period	-	-	-	152

In 2013, the remuneration of key management personnel comprised salaries totalling UAH 5,039 thousand (2012: UAH 4,032 thousand), including social insurance and pension contributions of UAH 287 thousand (2012: UAH 386 thousand).

The vacation accrual related to key management personnel as at 31 December 2013 was UAH 297 thousand (2012: UAH 408 thousand).

59) Analysis of assets and liabilities by maturity

The following table shows an analysis of assets and liabilities according to their payments or withdrawals. Information about contractual obligations of the Bank under borrowed funds disclosed in Note 54 "Financial Risks".

	2013			**2012**		
	Not later than 1 year	**Later than 1 year**	**Total**	**Not later than 1 year**	**Later than 1 year**	**Total**
ASSETS						
Cash and cash equivalents	322,549	-	**322,549**	300,363	-	**300,363**
Mandatory reserves in National Bank of Ukraine	93,348	-	**93,348**	103,248	-	**103,248**
Financial assets available at fair value through profit or loss	42,916	-	**42,916**	-	45,135	**45,135**
Due from other banks	-	-	**-**	104,014	-	**104,014**
Loans and advances to customers	957,508	860,034	**1,817,542**	898,153	627,282	**1,525,435**
Investment securities available-for-sale	-	432	**432**	-	20,614	**20,614**
Current income tax asset	1,038	-	**1,038**	,183	-	**,183**
Deferred income tax asset	-	17,462	**17,462**	-	31,873	**31,873**
Premises and equipment	-	77,201	**77,201**	-	66,850	**66,850**
Intangible assets	-	9,505	**9,505**	-	9,771	**9,771**
Investment property	-	13,453	**13,453**	-	-	**-**
Other financial assets	-	8,498	**8,498**	-	7,692	**7,692**
Other non-financial assets	57,212	-	**57,212**	45,082	-	**45,082**
Total assets	**1,474,571**	**986,585**	**2,461,156**	**1,451,043**	**809,217**	**2,260,260**
LIABILITIES						
Due to other banks	25,798	-	**25,798**	-	-	**-**
Customer accounts	1,863,533	13,823	**1,877,356**	1,566,415	11,793	**1,578,208**
Debt securities in issue	-	21,040	**21,040**	-	102,099	**102,099**
Other borrowed funds	102 7	53,626	**156,264**	68,957	184,536	**253,493**
Other financial liabilities	14,584	-	**14,584**	10,559	-	**10,559**
Other non-financial liabilities	1,798	-	**1,799**	1,053	-	**1,053**
Current income tax liabilities	7,287	-	**7,287**	-	-	**-**
Subordinated debt	50	48,278	**48,327**	81	48,274	**48,355**
Total liabilities						
Net position	**2,015,687**	**136,767**	**2,152,454**	**1,647,065**	**346,702**	**1,993,767**
LIABILITIES	**(541,115)**	**849,817**	**308,702**	**(196,022)**	**462,515**	**266,493**

60) Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (FVTPL). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2013:

	Loans and receivables	**Available-for-sale assets**	**Assets at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	322,549	-	-	**322,549**
Mandatory reserves in National Bank of Ukraine	93,348	-	-	**93,348**
Financial assets available at fair value through profit or loss	-	-	42,916	**42,916**
Loans and advances to customers	1,817,542	**-**	**-**	**1,817,542**
Business loans	1,394,222	-	-	**1,394,222**
Agricultural loans	379,397	-	-	**379,397**
Housing improvement loans	5,318	-	-	**5,318**
Finance leases	14,908	-	-	**14,908**
Consumer loans	13,221	-	-	**13,221**
Other loans	10,476	-	-	**10,476**
Investment securities available-for-sale	-	432	-	**432**
Other financial assets	8,498	-	-	**8,498**
TOTAL FINANCIAL ASSETS	**2,241,937**	**432**	**42,916**	**2,285,285**
NON-FINANCIAL ASSETS				**175,871**
TOTAL ASSETS				**2,461,156**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2012:

	Loans and receivables	**Available-for-sale assets**	**Assets at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	300,363	-	-	**300,363**
Mandatory reserves in National Bank of Ukraine	103,248	-	-	**103,248**
Financial assets available at fair value through profit or loss	-	-	45,135	**45,135**
Due from other banks	104,014	-	-	**104,014**
Loans and advances to customers	1,525,435	**-**	**-**	**1,525,435**
Business loans	1,169,287	-	-	**1,169,287**
Agricultural loans	290,891	-	-	**290,891**
Housing improvement loans	22,258	-	-	**22,258**
Finance leases	10,930	-	-	**10,930**
Consumer loans	17,301	-	-	**17,301**
Other loans	14,768	-	-	**14,768**
Investment securities available-for-sale	-	20,614	-	**20,614**
Other financial assets	7,692	-	-	**7,692**
TOTAL FINANCIAL ASSETS	**2,040,752**	**20,614**	**45,135**	**2,106,501**
NON-FINANCIAL ASSETS				**153,759**
TOTAL ASSETS				**2,260,260,**

As at 31 December 2013 and 31 December 2012, all of the Bank's financial liabilities were carried at amortised cost.

61) Events after reporting period

In February 2014 for the purpose of maintaining of liquidity level, the Bank partially used the funds within stand-by credit line of USD 11 million granted in September 2013 by ProCredit Holding AG. The Bank attracted USD 5 million maturing in April 2014.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer