

PJSC DEUTSCHE BANK DBU

Financial statements

31 December 2013

These financial statements contain 43 pages

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Independent Auditors' Report

To the Board of Directors

Public Joint Stock Company DEUTSCHE BANK DBU

Report on the financial statements

We have audited the accompanying financial statements of Public Joint Stock Company DEUTSCHE BANK DBU (the Bank) (EDRPOU Code 36520434, located at Lavrska Street, 20, Kyiv 01015, Ukraine, registered in Kyiv on 18 June 2009), which comprise the statement of financial position as at 31 December 2013 and the statements of profit and loss and other comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, which includes general information on the Bank's activities.

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, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market 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 adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No. 229/7 dated 31 March 2011 and in accordance with the requirements adopted pursuant to No. 1528 dated 19 December 2006 and Resolution No. 1360 dated 29 September 2011 of the State Commission on Securities and Stock Market. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers in the stock market to the National Commission on Securities and Stock Market.

Emphasis of Matter

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

Report on other legal and regulatory requirements

Report on requirements of the National Commission on Securities and Stock Market

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. In conformity with Resolutions of the State Commission on Securities and Stock Market No. 1528 dated 19 December 2006 and No.1360 dated 29 September 2011, our audit procedures addressed the disclosure of information in the financial statements as is required by International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market. We conducted our audit in accordance with the engagement contract #131-SA/2013 dated 25 September 2013. Our audit was conducted between 25 September 2013 and 11 April 2014.

In our opinion, the disclosed information in the financial statements has been prepared, in all material respects, in accordance with requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market of Ukraine.

In addition, based on Resolution of the State Commission on Securities and Stock Market No. 1528 dated 19 December 2006 and No. 1360 dated 29 September 2011, we inform you of the following:

- As at 31 December 2013 and 31 December 2012, the Bank does not comply with the requirements of Part Three, Article 155 of the Civil Code of Ukraine in respect of net assets value.

In addition, based on Resolution of the State Commission on Securities and Stock Market No. 1360 dated 29 September 2011, we inform you of the following:

- There are no significant discrepancies between the financial statements and other information prepared by the Bank for submission to the National Commission on Securities and Stock Market together with the financial statements;
- During the year ended 31 December 2013, the Bank complied with the requirements on execution of any significant legal transactions in excess of 10 per cent of the total assets' value in accordance with Article 70 of the Law of Ukraine "On Joint-Stock Companies";
- The information disclosed in the financial statements properly presents the Bank's corporate governance status, including its internal audit function;

- In the course of our audit, we determined and performed assessment of risks of material misstatement due to fraud in accordance with ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.


JSC KPMG Audit

Certificate No. 2397 of 26 January 2001 issued by the
Audit Chamber of Ukraine
EDRPOU Code: 31032100
NBU Banking Auditor's Registration Certificate
No. 0000012 of 17 September 2012, Resolution No. 39

Anna Parkhomenko
Deputy Director
Certified Auditor

ACU Certificate: № 0085
NBU Certificate: 0000044



11 April 2014

(in thousands of UAH)

	Note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	5	2,138,651	1,800,809
Mandatory reserve balances with the National Bank of Ukraine	6	43,965	25,306
Loans and advances to customers	7	132,656	16,036
Securities available-for-sale	8	42,644	205,328
Deferred tax asset	20	2,917	3,644
Property, equipment and intangible assets	9	695	443
Other financial assets	10	23	114
Other assets	11	472	500
Total assets		2,362,023	2,052,180
LIABILITIES			
Due to customers	12	2,125,486	1,831,986
Current tax liability		3,633	77
Other liabilities	13	7,969	9,735
Total liabilities		2,137,088	1,841,798
EQUITY			
Share capital	14	228,666	228,666
Accumulated deficit		(7,204)	(17,542)
Other reserves		3,682	-
Revaluation reserves	15	(209)	(742)
Total equity		224,935	210,382
Total liabilities and equity		2,362,023	2,052,180

Authorised for issue and signed:

11 April 2014

Topolnytskiy Roman
Acting Chairman of the Board



Alexey Rybenko
Chief Accountant

Prepared by: Mamedova M.M.
Economist
Phone: (044) 495-92-32

Statement of financial position should be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 43.

PJSC DEUTSCHE BANK DBU
Financial statements as at and for the year ended 31 December 2013
Statement of profit and loss and other comprehensive income for the year ended 31 December 2013

<i>(in thousands of UAH)</i>	<i>Note</i>	2013	2012
Interest income	17	30,887	52,779
Interest expense	17	(1,077)	(10,048)
Net interest income	17	29,810	42,731
Fee and commission income	18	14,870	13,288
Fee and commission expense	18	(2,191)	(3,196)
Net result from dealing with securities available-for-sale		6,260	(901)
Gains less losses from dealing with foreign currencies		2,122	722
Foreign currency revaluation result		30	135
Impairment loss	7	(116)	9
Other operating income		754	1,993
Administrative and other operating expenses	19	(33,154)	(36,209)
Profit before tax		18,385	18,572
Income tax expense	20	(4,365)	(2,600)
Profit for the year		14,020	15,972
Other comprehensive income:			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Revaluation of securities available-for-sale	15	592	(1,911)
Income tax attributable to other comprehensive income	15	(59)	289
Other comprehensive income after tax for the year	15	533	(1,622)
Total comprehensive income for the year		14,553	14,350
Earnings per share from continuing operations:			
Basic and diluted earnings per share	21	0.06	0.07

Authorised for issue and signed:

11 April 2014

Topolnytskiy Roman
Acting Chairman of the Board



Alexey Rybenko
Chief Accountant

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Statement of profit and loss and other comprehensive income should be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 43.

(in thousands of UAH)

	Note	Attributable to the shareholders of the Bank			
		Share capital	Other reserves	Revaluation reserves	Accumulated deficit
Balance as at 1 January 2012		228,666	-	880	(33,514)
Profit for the year		-	-	-	15,972
Other comprehensive income	15	-	-	(1,622)	-
Total comprehensive income for the year		-	-	(1,622)	15,972
Balance as at 31 December 2012		228,666	-	(742)	(17,542)
Balance as at 1 January 2013		228,666	-	(742)	(17,542)
Profit for the year		-	-	-	14,020
Other comprehensive income	15	-	-	533	-
Total comprehensive income for the year		-	-	533	14,020
Transfer to general banking reserve		-	3,682	-	(3,682)
Balance as at 31 December 2013		228,666	3,682	(209)	(7,204)

Authorised for issue and signed:

11 April 2014

Topolnytskiy Roman
Acting Chairman of the Board



Alexey Rybenko
Chief Accountant

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Statement of changes in equity should be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 43.

(in thousands of UAH)	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		18,385	18,572
Adjustments for:			
Depreciation and amortization	9	210	656
Net increase/(decrease) of provisions for impairment	7	116	(9)
Amortisation of discount /(premium)		(53)	(715)
Accrued income		(2,051)	(515)
(Decrease)/increase of accrued expenses		(100)	142
Net (gain)/loss from investing activities		(6,260)	901
Non-monetary items		(30)	(134)
Net monetary gain/(loss) from operating activities before changes in operating assets and liabilities		10,217	18,898
Changes in operating assets and liabilities:			
Net increase in mandatory balances in the National Bank of Ukraine		(18,659)	(23,420)
Net (increase)/decrease in loans and advances to customers		(116,576)	11,001
Net decrease/(increase) in other financial assets		90	(88)
Net decrease/(increase) in other assets		29	(154)
Net increase in due to customers		293,631	1,584,207
Net (decrease)/increase in other liabilities		(1,765)	5,533
Net cash flows from operating activities before income tax		166,967	1,595,977
Income tax paid		(141)	-
Net cash flows from operating activities		166,826	1,595,977
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of securities available-for-sale		(275,917)	(2,437,392)
Proceeds from the sale of securities available-for-sale		447,395	2,472,283
Acquisition of property and equipment	9	(435)	(35)
Acquisition of intangible assets	9	(27)	(28)
Net cash flows from investing activities		171,016	34,828
Effect of the official exchange rate changes on cash and cash equivalents		-	-
Net increase in cash and cash equivalents		337,842	1,630,805
Cash and cash equivalents at the beginning of the year	5	1,800,809	170,004
Cash and cash equivalents at the end of the year	5	2,138,651	1,800,809

Authorised for issue and signed:

11 April 2014

Topolnytskiy Roman
Acting Chairman of the Board



Alexey Rybenko
Chief Accountant

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Statement of cash flows should be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 43.

1 Background

a) Organisation and operations

Public Joint Stock Company DEUTSCHE BANK DBU (hereinafter – the Bank) was registered as an open joint stock company in 2009. In 2010, the Bank was re-registered as a public joint stock company.

The Bank operates based on the license issued by the National Bank of Ukraine on 18 November 2011. The Bank specializes in attraction of deposits and maintenance of customers' accounts, granting loans and providing guarantees, cash and settlement transactions, transactions with securities, and foreign exchange operations. The Bank's operations are regulated by the National Bank of Ukraine. The Bank is a member of Individuals' Deposits Guarantee Fund (certificate № 207 dated 12 October 2009).

As at 31 December 2013, the Bank is operating through its Head Office and has no branches.

The Bank's registered address is: Lavrska Street, 20, Kyiv, Ukraine.

b) Ultimate controlling party

Deutsche Bank AG, a German corporation, owns 100 % of the share capital. Deutsche Bank AG is a direct parent company of the Bank and its ultimate controlling party. Deutsche Bank AG prepares and publishes its consolidated financial statements prepared in accordance with IFRS.

The Bank's management does not own any shares in the Bank. Details of transactions with related parties are disclosed in note 26.

These financial statements were approved for issue by the Board on 11 April 2014.

2 Ukrainian business environment

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Bank's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment. These financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date.

3 Basis of preparation

a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), requirements of the National Bank of Ukraine (the NBU) on financial reporting by Ukrainian banks, Ukrainian legislation, the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official NBU exchange rate for foreign currencies at the date of recognition.

b) Basis of measurement

These financial statements are prepared on the historical cost basis except for securities available-for-sale, which are measured at fair value.

c) Functional and presentation currency

The functional and presentation currency is the Ukrainian hryvnia (UAH).

Unless stated otherwise, these financial statements are presented in UAH, rounded to the nearest thousand. The principal UAH exchange rates used in the preparation of these financial statements are as follows:

<i>Currency</i>	31 December 2013	31 December 2012
US dollar (USD)	7.993	7.993
Russian rouble (RUB)	0.245	0.263
Euro (EUR)	11.042	10.537

As at the date when these financial statements were approved by the Board, 11 April 2014, the official NBU exchange rates are USD 12.57, RUB 0.35, EUR 17.43.

d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

4 Significant accounting policies

The accounting policies set out below are consistently applied to all periods presented in these financial statements, except as stated otherwise.

a) Changes in accounting policies

The Bank has adopted IFRS 13 *Fair Value Measurements* with a date of initial application being 1 January 2013.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In

particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. (see note 25).

As a result, the Bank adopted a new definition of fair value. The change had no significant impact on the measurements of assets and liabilities. However, the Bank included new disclosures in the financial statements that are required under IFRS 13, comparatives not restated.

b) Foreign currency transactions

Transactions in foreign currencies are translated to Ukrainian hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBU, other banks and deposits due from banks with original maturities less than three months, which are subject to insignificant risk of changes in their fair value. The mandatory reserve deposit with the NBU is not considered to be a cash equivalent due to restrictions on its withdrawability.

d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables include cash and balances with the NBU, due from banks and loans to customers.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Available-for-sale assets include securities available-for-sale.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of financial instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction of transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised cost using the effective interest method, and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost of acquisition net of impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(iv) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale asset is recognised as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Bank writes off assets deemed to be uncollectible.

(vii) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

e) Impairment

(i) *Financial assets carried at amortised cost*

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Management reviews loan portfolio to assess impairment on a regular basis. The Bank first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant and for those where specific indications of impairment were identified as at the assessment date. Other loans and advances to customers, that are not individually significant and for which no specific indications of impairment were identified at individual level, are assessed on portfolio basis.

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each reporting date whether there is any objective evidence that the loan is impaired.

Objective evidence of impairment exists when a loss event has occurred. Identification of loss event for individual assessment involves analysis of the following aspects of the borrower's financial position.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following aspects:

- the aggregate exposure to the customer
- the amount and timing of expected loan receipts and recoveries
- the realisable value of collateral and likelihood of successful foreclosure.

The amount of impairment loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The collective assessment is based on appropriate historical trends of default and a migration matrix approach. For collective assessment purposes, exposures are divided into homogeneous groups with similar risks and characteristics. The loss amount for collectively assessed loans is determined based on the following aspects:

- the probability of default by the client or counterparty on its contractual obligations
- current exposures to the counterparty
- estimated receipts from collateral realisation (where applicable)

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

If there is objective evidence that such assets are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(iv) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

f) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

g) Property and equipment

(i) Owned assets

Property and equipment comprise additions of property and equipment and repairs of property and equipment, furniture and office equipment. Property and equipment are initially recognised at cost less accumulated depreciation and impairment losses.

Expenses incurred in connection with repairs of property and equipment are recognised in profit or loss in the period when they are incurred unless they meet the capitalisation recognition criteria.

Where an item of property, equipment assets comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Gains less losses from disposal of property and equipment are recognised in profit or loss.

(ii) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Assets acquired under lease other than financial lease are not recognised in the statement of financial position.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of specific assets. Depreciation commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated annual depreciation rates are as follows:

Machinery and equipment	10-25%
Fixtures and fittings (furniture)	10-20%
Other non-current tangible assets	20%

h) Intangible assets

Intangible assets, acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Estimated annual amortisation rate is 33%.

i) Share capital

Contributions to share capital are recognised at historical cost. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

j) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and requirements of the Ukrainian legislation.

Dividends in relation to ordinary shares are reflected as a reduction to retained earnings as and when declared.

k) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

l) Earnings per share

The Bank presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

m) Income and expenses recognition

Income and expenses are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in profit less losses on financial instruments at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other commissions and other income and expenses are recognised in profit or loss in the period when underlying services were performed.

Dividend income is recognised in profit or loss on the date of dividends declaration.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease payments made.

n) Employee benefits

Pensions are provided by the State through the mandatory contributions, which are made by the Bank and employees based on the earnings of the employees. The expenditure on these contributions is recognised in the profit or loss when contributions are due and is included in salaries and employee benefits.

o) Offsetting

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

p) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

For geographical allocation of assets and liabilities refer to note 22(e).

None of the Bank's customers accounted for more than 10% of the total revenues of the Bank generated during the years ended 31 December 2013 and 31 December 2012.

Substantially all revenues from external customers are generated from services to customers that are Ukrainian residents.

q) New standards and interpretations not yet adopted

The following new standards, *amendments to standards* and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective:

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2014.

The Bank is currently studying the effect of these new standards and amendments on the financial statements.

5 Cash and cash equivalents

Cash and cash equivalents are as follows:

(in thousands of UAH)

	31 December 2013	31 December 2012
Cash	490	248
Balances with the NBU (excluding mandatory reserves)	80,248	86,327
Deposit certificates of NBU	165,036	-
Cash and cash equivalents due from banks	1,892,877	1,714,234
Total cash and cash equivalents	2,138,651	1,800,809

Cash and cash equivalents due from banks are as follows:

(in thousands of UAH)

	31 December 2013	31 December 2012
Corresponding accounts		
OECD countries	1,892,875	1,664,968
Non OECD countries	2	191
Total corresponding accounts	1,892,877	1,665,159
Loans and deposits		
Domestic banks	-	49,075
Total loans and deposits	-	49,075
Total cash and cash equivalents in other banks	1,892,877	1,714,234

The following table represents an analysis of total cash and cash equivalents due from banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent:

(in thousands of UAH)

	31 December 2013	31 December 2012
Corresponding accounts		
rated from A- to A+	1,892,875	1,665,159
unrated	2	-
Loans and deposits		
unrated	-	49,075
Total cash and cash equivalents in other banks	1,892,877	1,714,234

As at 31 December 2013, cash and cash equivalents balances due from one bank amount to UAH 1,384,393 thousand or 73.1% of the total cash and cash equivalents due from banks (31 December 2012: UAH 1,618,292 thousand and 94.4% accordingly).

6 Mandatory reserve balances with the National Bank of Ukraine

The mandatory reserve balance is a deposit, placed with the National Bank of Ukraine (the NBU), the amount of which is calculated in accordance with regulations issued by the National Bank of Ukraine, and whose withdrawability is restricted. The other balances with the NBU represent balances related to settlement transactions and are available for withdrawal.

7 Loans and advances to customers

Loans and advances to customers are as follows:

<i>(in thousands of UAH)</i>	31 December 2013	31 December 2012
Corporate loans	132,780	16,044
Impairment provision	(124)	(8)
Total loans less provisions	132,656	16,036

Analysis of changes in provisions for loans for the years ended 31 December 2013 and 2012 is as follows:

<i>(in thousands of UAH)</i>	Corporate loans	Total
Balance as at 31 December 2011	17	17
Decrease of impairment provision during the year	(9)	(9)
Balance as at 31 December 2012	8	8
Increase of impairment reserve during the year	116	116
Balance as at 31 December 2013	124	124

Loan structure by types of economic activities is as follows:

<i>(in thousands of UAH)</i>	31 December 2013	% loan portfolio	31 December 2012	% loan portfolio
Trade	66,119	49.8%	16,044	100%
Processing industry	43,474	32.7%	-	-
Alcohol and beverage products	23,187	17.5%	-	-
Gross loans and advances to customers	132,780	100%	16,044	100%

As at 31 December 2013 and 31 December 2012 loans are unsecured.

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

<i>(in thousands of UAH)</i>	Corporate loans	Total
Not past due or impaired:		
Large borrowers	132,780	132,780
Loan impairment provision	(124)	(124)
Net loans	132,656	132,656

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

<i>(in thousands of UAH)</i>	Corporate loans	Total
Not past due or impaired:		
Large borrowers	16,044	16,044
Loan impairment provision	(8)	(8)
Net loans	16,036	16,036

During years ended 31 December 2013 and 2012, the Bank did not foreclose any assets pledged as collateral for loans and advances to customers.

8 Securities available-for-sale

As at 31 December 2013 and 31 December 2012, securities available-for-sale are not overdue nor impaired and comprise government bonds. Maturity analysis of securities available-for-sale is presented in note 16.

9 Property, equipment and intangible assets

A summary of movements in property, equipment and intangible assets for the years ended 31 December 2013 and 2012 is as follows:

(in thousands of UAH)

	Machinery and equipment	Instruments, fixtures and furniture	Other non- current tangible assets	Intangible assets	Total
Historical cost					
1 January 2012	465	63	23	1,885	2,436
Additions	27	8	-	28	63
31 December 2012	492	71	23	1,913	2,499
Additions	400	35	-	27	462
31 December 2013	892	106	23	1,940	2,961
Depreciation					
1 January 2012	(134)	(12)	(10)	(1,244)	(1,400)
Depreciation charge	(92)	(10)	(5)	(549)	(656)
31 December 2012	(226)	(22)	(15)	(1,793)	(2,056)
Depreciation charge	(102)	(15)	(3)	(90)	(210)
31 December 2013	(328)	(37)	(18)	(1,883)	(2,266)
Net book value:					
31 December 2012	266	49	8	120	443
31 December 2013	564	69	5	57	695

The Bank has no property and equipment restricted by law as to their ownership, use and disposal, pledged property, equipment and intangible assets, temporarily unused property and equipment, as well as property and equipment withdrawn from use. There are no intangible assets subject to restrictions of ownership rights, and there are no self-constructed intangible assets. During the reporting period there are no increases or decreases resulted from revaluations, as well as from impairment losses recognised or reversed directly in equity.

As at 31 December 2013, historical cost of fully depreciated property and equipment and fully amortised intangible assets amounts to UAH 1,842 thousand (31 December 2012: UAH 1,441 thousand).

10 Other financial assets

As at 31 December 2013 and 31 December 2012 other financial assets comprise accrued income related to cash and settlement servicing and other accrued income.

11 Other assets

Other assets are as follows:

<i>(in thousands of UAH)</i>	31 December 2013	31 December 2012
Prepayments for services	352	446
Deferred expenses	63	53
Other assets	57	1
Total other assets	472	500

12 Due to customers

Due to customers are as follows:

<i>(in thousands of UAH)</i>	31 December 2013	31 December 2012
Current accounts	764,766	216,175
Term deposits	1,360,720	1,615,811
Total due to customers	2,125,486	1,831,986

Due to customers are distributed by types of economic activities as follows:

<i>(in thousands of UAH)</i>	31 December 2013	%	31 December 2012	%
Extracting industry	1,426,945	67.13%	1,648,750	90.00%
Processing industry	344,925	16.23%	52,027	2.84%
Production of alcohol and beverages products	167,954	7.90%	-	-
Trade	66,528	3.13%	98,005	5.35%
Agriculture, hunting and forestry	163	0.01%	220	0.01%
Production and distribution of electric energy, gas and water	317	0.01%	339	0.02%
Other	118,654	5.59%	32,645	1.78%
Total due to customers	2,125,486	100.0%	1,831,986	100.0%

As at 31 December 2013 and 31 December 2012 due to customers are not pledged as security for the loans granted by the Bank, irrevocable commitments on imports letters of credit, guarantees, etc.

As at 31 December 2013, accounts of the ten largest customers total UAH 2,039,916 thousand, or 96.0% of the total amounts due to customers (31 December 2012: UAH 1,772,323 thousand, or 96.7%).

As at 31 December 2013, accounts of one largest customer total UAH 1,426,945 thousand, or 67.1% of the total amounts due to customers (31 December 2012: UAH 1,598,600 thousand, or 87.3%).

13 Other liabilities

Other liabilities are as follows:

(in thousands of UAH)

	31 December 2013	31 December 2012
Accounts payable for consultancy services	4,414	6,866
Accounts payable at settlements with the Bank's employees	2,005	2,021
Accrued expenses and other services	1,285	594
Taxes and duties payable, except corporate income tax	133	125
Other accrued expenses for office equipment lease	132	127
Deferred income	-	2
Total other liabilities	7,969	9,735

14 Share capital

As at 31 December 2013 and 31 December 2012, authorised issued capital consists of 228,666 thousand ordinary shares. The nominal value of ordinary shares is UAH 1 per share. The Bank did not issue shares in 2013 and 2012.

The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at annual and general meetings of the Bank.

In accordance with Ukrainian legislation, the distributable reserves are limited to the balance of accumulated reserves recorded in financial statements which is prepared in accordance with the NBU regulatory requirements.

15 Revaluation reserves (components of other comprehensive income)

Movements in revaluation reserves for the year ended 31 December are as follows:

(in thousands of UAH)

	2013	2012
Revaluation reserves as at 1 January	(742)	880
Revaluation of securities available-for-sale during the year:		
changes in fair value reserves	592	(1,911)
Income tax, related to:		
change of revaluation reserve of securities available-for-sale	(59)	289
Total movements in revaluation reserves less income tax	533	(1,622)
Revaluation reserves as at 31 December	(209)	(742)

16 Maturity analysis of assets and liabilities

Maturity analysis of assets and liabilities as at 31 December 2013 is as follows:

<i>(in thousands of UAH)</i>	<i>Note</i>	Less than 12 months	Over 12 months	Total
ASSETS				
Cash and cash equivalents	5	2,138,651	-	2,138,651
Mandatory reserve balances with the National Bank of Ukraine	6	43,965	-	43,965
Loans and advances to customers	7	132,656	-	132,656
Securities available-for-sale	8	42,644	-	42,644
Deferred tax asset	20	1,023	1,894	2,917
Property, equipment and intangible assets	9	14	681	695
Other financial assets	10	23	-	23
Other assets	11	472	-	472
Total assets		2,359,448	2,575	2,362,023
LIABILITIES				
Due to customers	12	2,125,486	-	2,125,486
Current tax liability		3,633	-	3,633
Other liabilities	13	7,969	-	7,969
Total liabilities		2,137,088	-	2,137,088

Maturity analysis of assets and liabilities as at 31 December 2012 is as follows:

<i>(in thousands of UAH)</i>	<i>Note</i>	Less than 12 months	Over 12 months	Total
ASSETS				
Cash and cash equivalents	5	1,800,809	-	1,800,809
Mandatory reserve balances with the National Bank of Ukraine	6	25,306	-	25,306
Loans and advances to customers	7	16,036	-	16,036
Securities available-for-sale	8	100,330	104,998	205,328
Deferred tax asset	20	80	3,564	3,644
Property, equipment and intangible assets	9	-	443	443
Other financial assets	10	114	-	114
Other assets	11	500	-	500
Total assets		1,943,175	109,005	2,052,180
LIABILITIES				
Due to customers	12	1,831,986	-	1,831,986
Current tax liability		77	-	77
Other liabilities	13	9,735	-	9,735
Total liabilities		1,841,798	-	1,841,798

Due to the fact that substantially all financial instruments are fixed rate contracts, these remaining contractual maturity dates also represent the interest rate repricing dates.

The above amounts represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

17 Interest income and expenses

Interest income and expenses for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2013	2012
Interest income		
Debt securities available-for-sale	21,038	33,962
Loans and advances to customers	7,727	14,376
Corresponding accounts in other banks	1,960	1,160
Overnight deposits in other banks	124	3,168
Due from banks	38	113
Total interest income	30,887	52,779
Interest expense		
Corporate term deposits	(1,005)	(9,930)
Overnight deposits of other banks	(58)	(9)
Current accounts	(13)	(61)
Term deposits of other banks	(1)	(48)
Total interest expenses	(1,077)	(10,048)
Net interest income	29,810	42,731

18 Fee and commission income and expenses

Fee and commission income and expenses for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2013	2012
Fee and commission income		
Guarantees issued	10,682	8,890
Foreign currency transactions for customers	2,722	3,267
Cash and settlement transactions	1,466	1,131
Total fee and commission income	14,870	13,288
Fee and commission expense		
Guarantees received	(1,972)	(2,654)
Cash and settlement transactions	(128)	(373)
Dealing with securities	(90)	(167)
Other	(1)	(2)
Total fee and commission expenses	(2,191)	(3,196)

19 Administrative and other operating expenses

Administrative and other operating expenses for years ended 31 December, are as follows:

<i>(in thousands of UAH)</i>	2013	2012
Salaries and employee benefits	(12,988)	(11,910)
Maintenance of property, equipment and intangible assets, telecommunication and other maintenance services	(9,167)	(12,827)
Operating leasing	(4,397)	(4,202)
Taxes and other mandatory payments other than corporate income tax	(1,328)	(1,974)
Consultancy services	(1,012)	(1,148)
Legal fees	(674)	(631)
Travel expenses	(453)	(430)
Professional services	(442)	(787)
Operating expenses	(128)	(107)
Depreciation of property and equipment	(120)	(106)
Amortisation of software and other intangible assets	(90)	(549)
Representative expenses	(64)	(66)
Security expenses	(25)	(25)
Penalties, fines, paid by the Bank	-	(7)
Other	(2,266)	(1,440)
Total administrative and other operating expenses	(33,154)	(36,209)

20 Income tax expense

The statutory income tax rate in 2013 – 19%; after 1 January 2014 – 18%.

The components of income tax expense for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2013	2012
Current tax expense	(3,697)	(76)
Deferred tax expense	(668)	(2,524)
Total income tax expense	(4,365)	(2,600)

a) Reconciliation of effective tax rate

Reconciliation of accounting profit and income tax for the year ended 31 December is as follows:

<i>(in thousands of UAH)</i>	2013	%	2012	%
Profit before tax	18,385	100%	18,572	100%
Income tax at the applicable tax rate	(3,493)	19.0%	(3,900)	21.0%
Non-deductible income and expenses	(1,049)	5.7%	95	(0.5%)
Effect of changes in the tax rates	177	(1.0%)	1,205	(6.5%)
Total income tax expenses	(4,365)	23.7%	(2,600)	14.0%

On 6 December 2012, changes in legislation on taxation of operations with securities were adopted in Ukraine. Following these changes, the Bank ceased recognition of deferred tax asset originated in previous periods on securities available-for-sale. The changes also stipulated tax rate of 10% on capital gains on sales of securities.

b) Deferred income tax asset

The temporary difference between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2013 and as at 31 December 2012.

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2013 are as follows:

<i>(in thousands of UAH)</i>	Balance as at the beginning of the year	Recognised in profits/ losses	Recognised in other comprehensive income	Balance as at the end of the year
Provisions for impairment of assets	(364)	(647)	-	(1,011)
Securities available-for-sale	(149)	231	(59)	23
Accrued income (expenses)	377	(36)	-	341
Other (provisions for guarantees)	(1,902)	1,566	-	(336)
Tax losses carried forward	5,682	(1,782)	-	3,900
Net deferred tax asset (liability)	3,644	(668)	(59)	2,917

In accordance with Ukrainian legislation, for the years from 2012 to 2015, inclusively, the Bank is entitled to claim 25% of tax losses accumulated as at 31 December 2011 against corresponding taxable profits, if any, in each year from 2012 to 2015, inclusively. Tax losses not claimed against corresponding taxable profits, if any, until 31 December 2015 may be claimed against corresponding taxable profits, if any, starting from 1 January 2016 without limitations.

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2012 are as follows:

<i>(in thousands of UAH)</i>	Balance as at the beginning of the year	Recognised in profits/ losses	Recognised in other comprehensive income	Balance as at the end of the year
Provisions for impairment of assets	(320)	(44)	-	(364)
Securities available-for-sale	(413)	(25)	289	(149)
Accrued income (expenses)	421	(44)	-	377
Other (provisions for guarantees)	(3,247)	1,345	-	(1,902)
Tax losses carried forward	9,438	(3,756)	-	5,682
Net deferred tax asset (liability)	5,879	(2,524)	289	3,644

21 Earnings per share

Calculation of basic earnings per one share, as presented below, is based on profit for the year, owned by holders of ordinary shares and the average weighted number of outstanding shares totaling to 228,666 thousand for years ended as at 31 December 2013 and 2012. The Bank has no potential ordinary dilutive shares.

<i>(in thousands of UAH)</i>	2013	2012
Profit for the period owned by holders of the Bank's ordinary shares	14,020	15,972
Average number of outstanding shares for the period (thousand shares)	228,666	228,666
Basic and diluted earnings per ordinary share (UAH)	0.06	0.07

22 Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (including risk of changes in foreign exchange rates and interest rates), and liquidity risk.

The risk management policies aim to identify, analyze, and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

Risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

a) Credit risk

Credit risk is the risk of a financial loss if a customer or counterparty fails to meet its contractual obligations. The Bank developed policies and procedures in order to manage credit exposures (both for on balance sheet and off balance sheet exposures). The credit policies are reviewed and approved by the Board.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country risk, and industry risk).

The credit policy establishes:

- procedures for review and approval of loan applications
- methodology for assessment of borrowers' solvency
- methodology for evaluation of collateral value
- requirements to loan documentation
- procedures for continuous monitoring of credit-related risks and other credit risks.

To manage credit risk, the Bank deals with counterparties with good credit standing and obtains adequate collateral.

Due to current market conditions and in order to mitigate credit risks, the Bank implemented several debt restructuring techniques for borrowers who suffered difficulties in repaying their loans.

The maximum exposure to balance sheet credit risk is generally represented by carrying amounts of financial assets in the statement of financial position.

The maximum exposure to off-balance sheet credit risk as at the reporting date is presented in note 24(d).

b) Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, interest rates, credit spreads, and equity prices will affect income or the value of financial instruments. Market risk arises from open interest rate, currency, and equity financial instruments positions influenced by general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank manages its market risk by setting open position limits in relation to certain portfolios of financial instruments, interest rate repricing, and currency positions. Such limits are monitored on a regular basis and reviewed and approved by the Board.

c) Currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology.

The following table shows currency risk analysis:

(in thousands of UAH)	31 December 2013			31 December 2012		
	Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
USD	1,867,756	1,867,109	647	1,645,605	1,636,510	9,095
EUR	29,932	30,804	(872)	19,560	20,320	(760)
Total	1,897,688	1,897,913	(225)	1,665,165	1,656,830	8,335

As at 31 December, a 10 % weakening of the Ukrainian hryvnia against the following currencies would have decreased post-tax profit and equity by the amount shown below. This analysis is based on the year-end position and assumes that all other variables, in particular interest rates, remain constant.

(in thousands of UAH)	2013		2012	
	Profit or loss	Equity	Profit or loss	Equity
10% appreciation of USD against UAH	52	52	719	719
10% appreciation of EUR against UAH	(71)	(71)	(60)	(60)

As at 31 December, a 10 percent strengthening of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the post-tax profit and equity to the amount shown above, on the basis that all other variables remain constant.

d) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on interest margin and net interest income. To the extent the term structure of interest bearing assets differs from that of interest bearing liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase because of changes in market interest rates. In practice, management reprices interest rates on certain financial assets and liabilities based on current market conditions and mutual arrangements, which are documented in an addendum to the original agreement that sets forth the new interest rate.

The Bank has no floating interest rate instruments. The Bank does not account for fixed rate financial instruments at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December:

	2013			2012		
	Average effective interest rate, %			Average effective interest rate, %		
	UAH	USD	EUR	UAH	USD	EUR
Interest bearing assets						
Cash and cash equivalents	2.33%	0.10%	-	-	0.10%	0.10%
Due from banks	-	-	-	14.00%	-	-
Loans and advances to customers	13.19%	-	-	25.64%	-	-
Securities available-for-sale	11.49%	-	-	19.27%	-	-
Interest bearing liabilities						
Due to customers:						
Current accounts	0.01%	0.01%	-	1.15%	0.01%	-
Term deposits	1.71%	0.01%	-	12.29%	0.01%	-

The Bank does not have any floating rate instruments. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

e) Geographical risk

Geographical concentration of financial assets and liabilities as at 31 December 2013 is as follows:

<i>(in thousands of UAH)</i>	Ukraine	OECD countries	Other	Total
Assets				
Cash and cash equivalents	245,774	1,892,875	2	2,138,651
Mandatory reserve balances with the National Bank of Ukraine	43,965	-	-	43,965
Loans and advances to customers	132,656	-	-	132,656
Securities available-for-sale	42,644	-	-	42,644
Other financial assets	19	-	4	23
Total financial assets	465,058	1,892,875	6	2,357,939
Liabilities				
Due to customers	2,125,193	181	112	2,125,486
Total financial liabilities	2,125,193	181	112	2,125,486
Net balance sheet position	(1,660,135)	1,892,694	(106)	232,453

Geographical concentration of financial assets and liabilities as at 31 December 2012 is as follows:

<i>(in thousands of UAH)</i>	Ukraine	OECD countries	Other	Total
Assets				
Cash and cash equivalents	135,650	1,664,968	191	1,800,809
Mandatory reserve balances with the National Bank of Ukraine	25,306	-	-	25,306
Loans and advances to customers	16,036	-	-	16,036
Securities available-for-sale	205,328	-	-	205,328
Other financial assets	110	4	-	114
Total financial assets	382,430	1,664,972	191	2,047,593
Liabilities				
Due to customers	1,831,421	399	166	1,831,986
Total financial liabilities	1,831,421	399	166	1,831,986
Net balance sheet position	(1,448,991)	1,664,573	25	215,607

f) Liquidity risk

Liquidity risk, existing or potential, is the risk that the Bank will be unable to meet its obligations when they fall due without unacceptable losses being incurred.

Assets and liabilities and liquidity are managed by Asset and Liability Committee (ALCO), which analyses assets and liabilities by maturity and provide recommendations on how to avoid liquidity gaps. In addition, ALCO analyses liability cost and return on assets, controls compliance with NBU's regulations and provisioning requirements, and prepares recommendations on proper asset and liability management. ALCO is responsible for cash flow optimisation and payment discipline, coordinates corporate forecast system, etc.

Liquidity risk is a major financial risk, and Bank's stable financial position depends on the efficiency of liquidity risk management. To manage liquidity risk, the Bank analyses asset and liability structure, liquidity status, both for all currencies collectively and for individual currencies of Bank's transactions. In addition, the Bank controls its compliance with the NBU's requirements to provisioning of amounts due from banks (N4 - immediate liquidity ratio, N5 - current liquidity ratio, N6 – short-term liquidity ratio), and internally developed requirements. Efficient liquidity management is performed using special techniques, such as analysis of assets and liabilities by maturities and cash flow projections.

Monitoring of adherence to limit is performed daily based on limit adherence reports.

The undiscounted cash flows from financial liabilities, including interest payments, by maturity as at 31 December 2013 are as follows:

<i>(in thousands of UAH)</i>	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total	Total carrying amount
Due to customers:						
Legal entities	766,569	1,358,948	-	-	2,125,517	2,125,486
Other credit related commitments	28,860	78,821	128,395	24,319	260,395	260,395
Total potential future payments under financial liabilities	795,429	1,437,769	128,395	24,319	2,385,912	2,385,881

In accordance with agreements, the Bank is obliged to pay deposits included in column '1 month to 3 months' at depositor's request submitted to the Bank 2 working days before the date of early withdrawal. However, the Bank does not expect demands for early withdrawals. Balances are shown in the above table in accordance with their contractual maturities, assuming that the customers will not demand early withdrawal.

The undiscounted cash flows from financial liabilities, including interest payments, by maturity as at 31 December 2012 are as follows:

<i>(in thousands of UAH)</i>	On demand and less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total	Total carrying amount
Due to customers:						
Legal entities	233,349	1,598,766	-	-	1,832,115	1,831,986
Other credit related commitments	18,237	167,714	158,238	3,130	347,319	347,319
Total potential future payments under financial liabilities	251,586	1,766,480	158,238	3,130	2,179,434	2,179,305

23 Capital management

The Bank's principal objective in capital management is to maintain a strong capital base so as to perform efficient operations and ensure strategic development of the banking business while complying with NBU's requirements to capital management. Capital management is an integral part of Bank's assets and liabilities management. The Bank ensures that its capital adequacy is maintained on a required level through planning and control mechanisms. The Bank monitors capital adequacy ratio on a daily basis.

Regulatory capital adequacy ratio calculated in accordance with the NBU requirements is 38.09% (31 December 2012: 33.13%), while the minimum requirement for capital adequacy ratio is 10%. As at 31 December 2013, regulatory capital amounted to UAH 219,024 thousand (31 December 2012: UAH 204,439 thousand).

Regulatory capital structure is as follows:

<i>(in thousands of UAH)</i>	31 December 2013	31 December 2012
Core capital	196,511	159,630
Share capital	228,666	228,666
Other reserves	3,682	-
Reduction of core capital		
Reduction of regulatory capital (charges to reserves; intangible assets less amortisation; capital expenditure in intangible assets; previous and current year losses) including:	(35,837)	(69,036)
Intangible assets less amortization	(57)	(120)
Previous year losses	(35,780)	(68,916)
Additional capital	22,513	44,809
Provisions for standard debts on due from banks, loans to customers, off-balance sheets transactions (including revaluation of property and equipment)	86	395
Estimated profit for current year	22,427	44,414
Total regulatory capital	219,024	204,439
Total risk weighted assets	573,142	611,435
Open currency position	1,907	5,593
Total regulatory capital expressed as a percentage of total risk-weighted assets	38.09%	33.13%

In these financial statements calculation of regulatory capital is based on daily balance sheet records.

24 Contingencies

a) Litigations

The Bank is not involved in litigation against the Bank. The Bank initiated no litigation as a plaintiff during the reporting period.

The Bank recognised no provisions for potential losses in respect of litigation.

b) Taxation contingencies

The Ukrainian tax system is relatively new and can be characterised by numerous taxes and frequently changing legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the NBU and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes that it has complied with all existing tax legislation and has provided adequately for tax liabilities based on its interpretations of applicable Ukrainian tax legislation, official pronouncements and court decisions. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are presented as follows:

<i>(in thousands of UAH)</i>	31 December 2013	31 December 2012
Less than 1 year	1,406	3,804
From 1 to 5 years	528	415
Total	1,934	4,219

d) Credit related commitments

Structure of credit related commitments is as follows:

<i>(in thousands of UAH)</i>	31 December 2013	31 December 2012
Revocable:		
Undrawn credit lines	996,526	811,095
Irrevocable:		
Imports letters of credit	103,274	125,189
Guarantees issued	157,121	219,304
Total	1,256,921	1,155,588

Credit related commitments by currency are as follows:

<i>(in thousands of UAH)</i>	31 December 2013	31 December 2012
UAH	29,729	223,053
USD	484,418	472,559
EUR	738,209	457,740
Other	4,565	2,236
Total	1,256,921	1,155,588

As at the reporting date, the Bank has no pledged assets or encumbrances over assets.

25 Fair value of financial instruments

a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

<i>(in thousands of UAH)</i>	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	2,138,651	-	-	2,138,651	2,138,651
Mandatory reserve balances with the National Bank of Ukraine	43,965	-	-	43,965	43,965
Loans and advances to customers	132,656	-	-	132,656	132,247
Securities available-for-sale	-	42,644	-	42,644	42,644
Other financial assets	23	-	-	23	23
Total assets	2,315,295	42,644	-	2,357,939	2,357,530
Due to customers	-	-	2,125,486	2,125,486	2,125,486
Total liabilities	-	-	2,125,486	2,125,486	2,125,486

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

<i>(in thousands of UAH)</i>	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	1,800,809	-	-	1,800,809	1,800,809
Mandatory reserve balances with the National Bank of Ukraine	25,306	-	-	25,306	25,306
Loans and advances to customers	16,036	-	-	16,036	16,110
Securities available-for-sale	-	205,328	-	205,328	205,328
Other financial assets	114	-	-	114	114
Total assets	1,842,265	205,328	-	2,047,593	2,047,667
Due to customers	-	-	1,831,986	1,831,986	1,831,986
Total liabilities	-	-	1,831,986	1,831,986	1,831,986

As at 31 December 2013 and 2012, the fair values of all financial assets and liabilities are estimated to approximate their carrying values due to their short-term nature and/or market interest rates at period end.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

b) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following three-level fair value hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments and traded derivatives, such as futures.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available.

Financial assets measured at fair value by hierarchy levels are as follows:

	31 December 2013		31 December 2012	
	Fair value (level II)	Carrying value	Fair value (level II)	Carrying value
Securities available-for-sale:				
Government bonds	42,644	42,644	205,328	205,328

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

<i>(in thousands of UAH)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
Financial assets					
Cash and cash equivalents	-	2,138,651	-	2,138,651	2,138,651
Mandatory reserve balances with the National Bank of Ukraine	-	43,965	-	43,965	43,965
Loans and advances to customers	-	-	132,247	132,247	132,656
Other financial assets	-	23	-	23	23
Total	-	2,182,639	132,247	2,314,886	2,315,295
Financial liabilities					
Due to customers	-	2,125,486	-	2,125,486	2,125,486
Total	-	2,125,486	-	2,125,486	2,125,486

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2012:

<i>(in thousands of UAH)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
Financial assets					
Cash and cash equivalents	-	1,800,809	-	1,800,809	1,800,809
Mandatory reserve balances with the National Bank of Ukraine	-	25,306	-	25,306	25,306
Loans and advances to customers	-	-	16,110	16,110	16,036
Other financial assets	-	114	-	114	114
Total	-	1,826,229	16,110	1,842,339	1,842,265
Financial liabilities					
Due to customers	-	1,831,986	-	1,831,986	1,831,986
Total	-	1,831,986	-	1,831,986	1,831,986

Fixed rate financial instruments

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

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2013:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans to customers	132,247	Discounted cash flow	Risk adjusted discount rate	Interest rates 16.59%-18.51%	Significant increase in the interest rate would result in a lower fair values.

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2012:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans to customers	16,110	Discounted cash flow	Risk adjusted discount rate	Interest rates 18.4%-21.7%	Significant increase in the interest rate would result in a lower fair values.

During the years ended 31 December 2013 and 2012, no fair value gains or fair value losses were recognised in profit or loss or other comprehensive income on loans to customers.

During the years ended 31 December 2013 and 2012, there were no transfers into and out of Level 3 of the fair value hierarchy.

During the year ended 31 December 2013, the Bank granted loans to customers amounting to UAH 1,714,780 thousand (during the year ended 31 December 2012: UAH 1,271,141 thousand).

During the year ended 31 December 2013, loans to customers amounting to UAH 1,603,887 thousand were settled (during the year ended 31 December 2012: UAH 1,317,111 thousand).

26 Transactions with related parties

The Bank grants loans and advances, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions.

The Bank assesses credit risks associated with loans to related parties and manages these credit risks in accordance with the normative requirements of the NBU.

Terms of transactions with related parties are established at the time of the transaction. In accordance with IAS 24 *Related Party Disclosures*, related parties comprise:

- the parent company – the ultimate controlling party of the Bank is Deutsche Bank AG (Germany)
- entities under common control of Deutsche Bank AG
- key management personnel and their immediate family members, members of the Supervisory Board, the Board, and their immediate family members.

As at 31 December 2013 and 31 December 2012, the Bank has no subsidiaries, associates, or joint ventures where the Bank has control relationship.

Balances with related parties as at 31 December 2013 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Due from banks	1,384,393	508,484
Due to customers	-	1
Other liabilities (at demand, denominated in EUR)	(4,546)	-

As at 31 December 2013, balances due from banks related to transactions with related parties represent call deposits and bear interest of 0.1%.

As at 31 December 2013, balances due from banks related to transactions with related parties by currency are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
USD	1,358,011	508,484
EUR	26,382	-
Total	1,384,393	508,484

Revenue and expenses on transactions with related parties for the year ended 31 December 2013 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Key management personnel	Entities under common control
Interest income	1,406	-	5
Interest expense	(1)	-	-
Gains less losses from dealing in foreign currencies	-	-	135
Commission income	47	-	-
Commission expense	-	-	(2,519)
Administrative and other operating expenses	(8,321)	(3,720)	-
Other operating income	754	-	-

Other rights and commitments on transactions with related parties as at 31 December 2013 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Guarantees issued	-	3,279

Balances with related parties as at 31 December 2012 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Due from banks	1,618,158	47,001
Due to customers	-	(18)
Other liabilities (at demand, denominated in EUR)	(6,866)	-

As at 31 December 2012, balances due from banks related to transactions with related parties represent call deposits and bear interest of 0.1%.

As at 31 December 2012, balances due from banks related to transactions with related parties by currency are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
USD	1,598,600	46,810
EUR	19,558	-
RUB	-	191
Total	<u>1,618,158</u>	<u>47,001</u>

Revenue and expenses on transactions with related parties for the year ended 31 December 2012 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Key management personnel	Entities under common control
Interest income	683	-	241
Gains less losses from dealing in foreign currencies	(1,926)	-	(14)
Commission income	4	-	57
Commission expense	(30)	-	(304)
Administrative and other operating expenses	(5,280)	(3,653)	-

Other rights and commitments on transactions with related parties as at 31 December 2012 are as follows:

<i>(in thousands of UAH)</i>	Parent company	Entities under common control
Guarantees issued	9,431	-

Payments to key management personnel for the years ended 31 December are as follows:

<i>(in thousands of UAH)</i>	As at and for the year ended 31 December 2013		As at and for the year ended 31 December 2012	
	Expenses	Accrued liability	Expenses	Accrued liability
Payments to key management personnel	3,720	369	3,653	716

27 Subsequent events

On 13 February 2014, the sole shareholder of the Bank (Deutsche Bank AG) decided to dismiss of the Chairman of the Management Board Seryogin Konstantyn Viktorovych and to appoint Topolnytsky Roman Yaroslavovich as Acting Chairman of the Management Board.

In February 2014, customer accounts of one largest customer totaling UAH 1,426,945 thousand were withdrawn. Management believes this event will not impact the Bank's ability to continue as a going concern.

Subsequent to 31 December 2013, there were no other subsequent events, except for changes in Ukrainian business environment as disclosed in Note 2.

28 Other information disclosed in accordance with the requirements of the Ukrainian legislation

Pursuant to the requirements of the Resolution No. 2826 dated 3 December 2013 of the National Commission on Securities and Stock Market the Bank discloses the following information:

- Bank's assets and liabilities as at 31 December 2013 and 31 December 2012, are presented in the statement of financial position in these financial statements.
- Bank's equity components are presented in the statement of changes in equity in these financial statements. Information on Bank's equity is disclosed in Note 23.
- As at 31 December 2013, Bank's net assets are lower than the amount of its share capital by UAH 3,731 thousand (31 December 2012: UAH 18,284 thousand).
- Share capital of the Bank is fully paid in cash.
- The Bank has no non-government pension plans in operation.
- The Bank has no own debt securities issued.
- The Bank has no mortgage securities issued.
- During 2013, there occurred the following events as defined under the part 1 of Article 41 of the Law of Ukraine "*On securities and stock market*" that could have had significant impact on the financial position of the Bank or led to significant change of the value of its securities issued, including the following:
 - On 15 August 2013 (order №7), the sole shareholder of the Bank (Deutsche Bank AG) dismissed of the Deputy Chairman of the Supervisory Board Dr. Stefan Hans Herman Waller and appointed Mr. Stefan Gemot Bender for the position of the Deputy Chairman of the Supervisory Board of the Bank.
- During 2013, there no other events as defined under Article 41, part 1, of the Law of Ukraine "*On securities and stock market*" that could have had significant impact on the financial position of the Bank or led to significant change in value of its securities issued, including the following:
 - No decisions on issuance of securities for the amount exceeding 25% of statutory capital of the Bank were approved.
 - No decision on buy back of the Bank's own shares were approved.
 - No facts of listing/de-listing of own Bank's securities issued at stock-exchange took place.
 - No loans were received the amount of which exceeds 25% of statutory capital of the Bank.
 - No changes in shareholders owing 10% and more of the voting shares of the Bank took place.
 - No decisions were approved to open an affiliate and/or representative office.
 - No decisions were approved to decrease the Bank's statutory capital.
 - No court decisions on the Bank bankruptcy or reorganization of potential bankrupt were taken.
 - No decisions of Bank's supreme governing body or court were taken in relation to filing for bankruptcy or suspension of bankruptcy proceedings.

The Bank's corporate governance, including its internal audit function


General Meeting of Shareholders is the Bank's supreme governing body convened by the Supervisory Board responsible for establishing the Bank's strategy, appointment of members of the Board, and approval of the Bank's structure and business plans.

The Board is an executive body responsible for governing daily banking operations and is reportable to the Supervisory Board. The Supervisory Board is responsible for establishing controls over and monitoring of risks. The Bank also established the committee primarily responsible for risk management (Note 22), loan approvals, tariffs and assets and liabilities management.

The Bank established Internal Audit Department responsible for independent assessment of organisational structure and controls implementation. Internal Audit Department reports directly to the Supervisory Board.


Authorised for issue and signed

11 April 2014



Topolnytskiy Roman
Acting Chairman of the Board





Alexey Rybenko
Chief Accountant

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