

**PRIVATBANK GROUP**

**Interim Management Statement  
for the Six Month Period  
Ended 30 June 2013 (unaudited)**

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**PrivatBank Group**  
**Management Basis Statement of Financial Position (Unaudited)**

<i>In millions of Ukrainian hryvnias</i>	Note	30 June 2013 (unaudited)	31 December 2012
<b>ASSETS</b>			
Cash and cash equivalents and mandatory reserves	5	32,349	29,100
Due from other banks		10,476	8,545
Loans and advances to customers	6	131,665	119,417
Embedded derivatives	15	2,993	2,750
Investment securities available-for-sale		1,285	862
Investment securities held to maturity		189	192
Current income tax prepayment		15	7
Deferred income tax asset		25	36
Goodwill		48	48
Premises, leasehold improvements and equipment and intangible assets		3,775	3,806
Other financial assets		861	799
Other assets		865	675
<b>TOTAL ASSETS</b>		<b>184,546</b>	<b>166,237</b>
<b>LIABILITIES</b>			
Due to the NBU	7	4,051	4,630
Due to other banks and other financing institutions	7	4,088	3,693
Customer accounts	8	141,342	124,574
Debt securities in issue	9	9,243	8,156
Current income tax liability		34	65
Deferred income tax liability		900	1,042
Provisions for liabilities and charges, other financial and non-financial liabilities		1,379	1,245
Subordinated debt		1,431	1,427
<b>TOTAL LIABILITIES</b>		<b>162,468</b>	<b>144,832</b>
<b>EQUITY</b>			
Share capital	10	14,897	14,897
Share premium	10	20	20
Contributions received for new shares issued but not registered		1,455	-
Revaluation reserve for premises		562	562
Revaluation reserve of investment securities available-for-sale		292	242
Currency translation reserve		275	322
Retained earnings and other reserves		4,171	4,939
<b>Net assets attributable to the Bank's owners</b>		<b>21,672</b>	<b>20,982</b>
<b>Non-controlling interest</b>		<b>406</b>	<b>423</b>
<b>TOTAL EQUITY</b>		<b>22,078</b>	<b>21,405</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>184,546</b>	<b>166,237</b>

Approved for issue and signed on behalf of the Management Board on 29 August 2013.

\_\_\_\_\_ signed  
Olexandr V. Dubilet  
Chairman of the Board

\_\_\_\_\_ signed  
Lubov I. Korotina  
Chief Accountant

**PrivatBank Group**  
**Management Basis Statement of Comprehensive Income (Unaudited)**

<i>In millions of Ukrainian hryvnias</i>	Note	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
Interest income	11	10,950	9,884
Interest expense	11	(6,676)	(5,062)
<b>Net interest income</b>		<b>4,274</b>	<b>4,822</b>
Provision for impairment of loans and advances to customers	6	(1,633)	(2,599)
<b>Net interest income after provision for impairment of loans and advances to customers</b>		<b>2,641</b>	<b>2,223</b>
Fee and commission income	12	2,088	1,771
Fee and commission expense	12	(387)	(268)
Losses less gains from embedded derivatives		(48)	(50)
Gains less losses from trading in foreign currencies		93	326
Foreign exchange translation gains less losses		185	115
(Impairment)/release of impairment of investment securities available-for-sale		(2)	4
Other operating income		86	96
Other losses less gains		(228)	(36)
Administrative and other operating expenses	13	(3,708)	(3,299)
<b>Profit before tax</b>		<b>720</b>	<b>882</b>
Income tax (expense)/credit		(30)	(12)
<b>Profit for the period</b>		<b>690</b>	<b>870</b>
<b>Other comprehensive income/(loss):</b>			
Revaluation reserve of investment securities available-for-sale		59	-
Income tax recorded directly in other comprehensive income		(9)	-
Exchange differences on translation to presentation currency		(67)	(43)
<b>Other comprehensive loss for the period</b>		<b>(17)</b>	<b>(43)</b>
<b>Total comprehensive income for the period</b>		<b>673</b>	<b>827</b>
<b>Profit/(loss) is attributable to:</b>			
Owners of the Bank		687	911
Non-controlling interest		3	(41)
<b>Profit for the period</b>		<b>690</b>	<b>870</b>
<b>Total comprehensive income/(loss) is attributed to:</b>			
Owners of the Bank		690	889
Non-controlling interest		(17)	(62)
<b>Total comprehensive income for the period</b>		<b>673</b>	<b>827</b>

**PrivatBank Group**  
**Management Basis Statement of Changes in Equity (Unaudited)**

	Attributable to Owners of the Bank							Non-controlling interest	Total equity
	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve of investment securities available-for-sale	Currency translation reserve	Retained earnings and other reserves	Total		
<i>In millions of Ukrainian hryvnias</i>									
<b>Balance at 1 January 2012</b>	<b>13,545</b>	<b>20</b>	<b>571</b>	<b>-</b>	<b>329</b>	<b>4,570</b>	<b>19,035</b>	<b>150</b>	<b>19,185</b>
Profit/(loss) for the period	-	-	-	-	-	911	911	(41)	870
Other comprehensive income	-	-	-	-	(22)	-	(22)	(21)	(43)
Total comprehensive income/(loss) for the period	-	-	-	-	(22)	911	889	(62)	827
Capitalisation of dividends	1,352	-	-	-	-	(1,352)	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest	-	-	(8)	-	(39)	125	78	203	281
<b>Balance at 30 June 2012</b>	<b>13,545</b>	<b>20</b>	<b>563</b>	<b>-</b>	<b>268</b>	<b>5,606</b>	<b>20,002</b>	<b>291</b>	<b>20,293</b>

**PrivatBank Group**  
**Management Basis Statement of Changes in Equity (Unaudited)**

	Attributable to Owners of the Bank							Total	Non-controlling interest	Total equity
	Share capital	Share premium	Contributions received for new shares issued but not registered	Revaluation reserve for premises	Revaluation reserve of investment securities available-for-sale	Currency translation reserve	Retained earnings and other reserves			
<i>In millions of Ukrainian hryvnias</i>										
<b>Balance at 1 January 2013</b>	<b>14,897</b>	<b>20</b>	<b>-</b>	<b>562</b>	<b>242</b>	<b>322</b>	<b>4,939</b>	<b>20,982</b>	<b>423</b>	<b>21,405</b>
Profit/(loss) for the period	-	-	-	-	-	-	687	687	3	690
Total comprehensive income/(loss) for the period	-	-	-	-	50	(47)	687	690	(17)	673
Contributions received for new shares issued but not registered	-	-	1,455	-	-	-	(1,455)	690	-	673
<b>Balance at 30 June 2013</b>	<b>14,897</b>	<b>20</b>	<b>1,455</b>	<b>562</b>	<b>292</b>	<b>275</b>	<b>4,171</b>	<b>21,672</b>	<b>406</b>	<b>22,078</b>

**PrivatBank Group**  
**Management Basis Statement of Cash Flows (Unaudited)**

	Note	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
<i>In millions of Ukrainian hryvnias</i>			
<b>Cash flows from operating activities</b>			
Interest received		9,941	9,638
Interest paid		(6,420)	(4,888)
Fees and commissions received		2,088	1,771
Fees and commissions paid		(387)	(268)
Income received from embedded derivatives		10	203
Income received/(loss incurred) from derivatives arising from swap, forward and spot transactions		(198)	52
Income received from trading in foreign currencies		93	326
Other operating income received		86	96
Staff costs paid		(1,854)	(1,694)
Administrative and other operating expenses paid, except for staff costs paid		(1,539)	(1,440)
Income tax paid		(190)	(127)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<b>1,630</b>	<b>3,669</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory reserve balances		(28)	(607)
Net increase in due from other banks		(1,927)	(1,074)
Net increase in loans and advances to customers		(13,221)	(11,050)
Net decrease in other financial assets		30	52
Net increase in other assets		(197)	(68)
Net decrease in due to the NBU		(579)	(764)
Net increase in due to other banks and other financing institutions		389	272
Net increase in customer accounts		16,699	12,992
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities		118	35
<b>Net cash from operating activities</b>		<b>2,914</b>	<b>3,457</b>
<b>Cash flows from investing activities</b>			
Proceeds from investment securities available-for-sale		-	182
Acquisition of investment securities available-for-sale		(494)	-
Proceeds from redemption of investment securities held to maturity		66	-
Acquisition of investment securities held to maturity		-	(167)
Acquisition of premises, leasehold improvements and equipment		(275)	(512)
Proceeds from disposal of premises, leasehold improvements and equipment		5	140
<b>Net cash used in investing activities</b>		<b>(698)</b>	<b>(357)</b>
<b>Cash flows from financing activities</b>			
Cash inflows on transactions with non-controlling interest		-	274
Proceeds from debt securities issued		1,087	2,958
Repayment and repurchase of debt securities issued		(31)	(3,170)
<b>Net cash from financing activities</b>		<b>1,056</b>	<b>62</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(51)</b>	<b>322</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,221</b>	<b>3,484</b>
Cash and cash equivalents at the beginning of the year		25,888	18,590
<b>Cash and cash equivalents at the end of the period</b>	5	<b>29,109</b>	<b>22,074</b>

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the management statement of cash flows are disclosed in Note 5.

## **1 Introduction**

The financial information on which this Interim Management Statement is based, and the data set out in the explanatory notes to this statement, are unaudited and have been prepared in accordance with PrivatBank Group's accounting policies as described in the Bank's Consolidated Financial Statements for the year ended 31 December 2012. A glossary of terms is also provided in the Bank's Consolidated Financial Statements for the year ended 31 December 2012.

The Bank was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. In 2009 the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation. As of 30 June 2013 and 31 December 2012 the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 30 June 2013 owned directly or indirectly respectively 46.27% (31 December 2012: 46.27%) and 46.43% (31 December 2012: 46.27%) of the outstanding shares and neither of which individually controlled the Bank. The major shareholders of the Bank do not have a contractual agreement on joint control of the Bank.

Chairman of the Supervisory Board:	Mr. G.B. Bogolyubov
Members of the Supervisory Board:	Mr. I.V. Kolomoyskiy Mr. A.G. Martynov

As of the date of issuing of the interim management statement composition of the Management Board was as follows:

Chairman of the Management Board:	Mr. A.V. Dubilet
Members of the Management Board:	
General Deputy Chairman of the Management Board:	Mr. Y.P. Pikush
First Deputy Chairman of the Management Board:	Mr. V.A. Yatsenko Mr. T.Y. Novikov Mr. N.A. Volkov
Deputy Chairman of the Management Board:	Mr. Y.V. Kandaurov Mrs. L.I. Chmona Mrs. T.M. Gurieva Mrs. L.A. Shmalchenko Mr. O.V. Gorohovskiy Mr. V.G. Zavorotniy Mr. A.P. Vitiaz Mr. S.V. Kryzhanovskiy Mr. D.A. Dubilet
Chief Accountant:	Mrs. L.I. Korotina
Head of Financial Monitoring Department:	Mr. I.L. Terekhin

**Principal activity.** The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the state deposit insurance scheme (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (31 December 2012: UAH 200 thousand) per individual in case bank liquidation procedure is started.



## **1 Introduction (Continued)**

As of 30 June 2013 the Bank had 32 branches and 3,381 outlets within Ukraine and a branch in Cyprus (31 December 2012: 32 branches, 3,380 outlets in Ukraine and a branch in Cyprus). Additionally, as of 30 June 2013 and 31 December 2012 the Bank had subsidiary banks in the Russian Federation, Latvia, Georgia and representative offices in Kyiv (Ukraine), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China) (31 December 2012: Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China)), other small subsidiary companies in Ukraine and two consolidated special purpose entities in the United Kingdom.

The principal subsidiaries included in the interim management statement, were as follows:

Name	Nature of business	Country of registration	Percentage of legal interest in subsidiary	
			30 June 2013 (unaudited)	31 December 2012
Moscomprivatbank	Banking	Russian Federation	70.04%	70.04%
JSC PrivatBank	Banking	Georgia	50.30%	50.30%
AS PrivatBank	Banking	Latvia	50.02%	50.02%

**Registered address and place of business.** The Bank's registered address is:

50, Naberezhna Peremohy Str.,  
49094, Dnipropetrovsk,  
Ukraine.

**Presentation currency.** This interim management statement is presented in millions of Ukrainian hryvnias ("UAH million"), unless otherwise stated.

## **2 Operating Environment of the Group**

Ukraine displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, relatively high inflation and high interest rates.

The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. The Ukrainian Government continues to introduce various stabilization measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies.

The ongoing international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Ukrainian financial and corporate sectors.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. Some loans to customers were issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service these loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The amount of provision for impaired loans is based on management's estimates of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

## **2 Operating Environment of the Group (Continued)**

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Bank has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in Ukraine.

The future economic development of Ukraine is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

## **3 Basis of Preparation and Summary of Significant Accounting Policies**

**Basis of Preparation.** The accounting policies and methods of computation adopted in the preparation of the interim management statement are consistent with those followed in the preparation of the Bank's consolidated financial statements for the year ended 31 December 2012.

The Bank operates in an industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

Any further changes to this interim management statement require approval of the Management Board who authorised this interim management statement for issue.

**Income taxes.** Income tax expense is recognised in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the weighted average effective annual income tax rate changes. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings; that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

**Foreign currency translation.** The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH").

The principal rates of exchange used for translating foreign currency balances were as follows:

	<b>30 June 2013, UAH</b>	<b>31 December 2012, UAH</b>
1 US Dollar (USD)	7.993000	7.993000
1 Euro (EUR)	10.410083	10.537172
1 Russian Ruble (RUB)	0.243040	0.263160
1 Latvian Lat (LVL)	14.822844	15.100562
1 Georgian Lari (GEL)	4.870514	4.825234

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the amounts recognised in the interim management statement and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the interim management statement and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Impairment losses on loans and advances.*** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and 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. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 771 million or UAH 826 million (30 June 2012: an increase or decrease in loan impairment losses of UAH 629 million or UAH 629 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 971 million or UAH 1,487 million (30 June 2012: increase or decrease in loan impairment losses of UAH 735 million or UAH 1,039 million), respectively.

***Assessment of loans and advances issued to a group of borrowers-oil traders for impairment.*** The Group regularly reviews its outstanding loans and advances issued to the oil traders who are engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. As of 30 June 2013 gross amount of such loans was UAH 38,892 million (31 December 2012: UAH 37,035 million). In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans issued to oil traders before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in an oil traders group, or regulatory, industry or national economic conditions that correlate with defaults on assets in the oil traders group. Management uses estimates based on historical loss experience for assets with credit risk flows. The methodology and 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 fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders. Refer to Note 6.

***Initial recognition of related party transactions.*** In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

**Fair value of derivatives.** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As of 30 June 2013 the Bank had loans and advances to customers totalling UAH 80,977 million (31 December 2012: UAH 82,276 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Bank as an embedded derivative with the fair value of UAH 2,993 million as of 30 June 2013 (31 December 2012: UAH 2,750 million) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit. All contracts mature from 2013 to 2014, inclusive. If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and profit or loss would increase by UAH 3,168 million and decrease by UAH 2,369 million (30 June 2012: 5%; increase by UAH 4,744 million and decrease by UAH 807 million). If the discount rate used for fair valuation of the derivatives as of 30 June 2013 would be higher/lower by 100 basis points, the fair value of the derivative and profit or loss would decrease/increase by UAH 22 million (30 June 2012: UAH 14 million). If the credit risk of counterparties as of 30 June 2013 would be higher/lower by 10%, the fair value of the derivative and profit or loss would decrease/increase by UAH 150 million (30 June 2012: UAH 36 million). Refer to Note 15. Analysis of deviation of sensitivity of fair value of derivative is done for each estimate separately not taking into the account changes in other estimates.

**Tax legislation.** Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations.

## 5 Cash and Cash Equivalents and Mandatory Reserves

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
Cash on hand	5,963	7,309
Cash balances with the Central Bank of Latvia	4,322	1,971
Cash balances with the NBU	3,189	2,429
Cash balances with the Central Bank of Russian Federation	2,120	1,008
Cash balances with the Central Bank of Georgia	527	235
Cash balances with the Central Bank of Cyprus	82	113
Correspondent accounts and overnight placements with other banks		
- Ukraine	1,194	872
- Other countries	14,952	15,163
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>32,349</b>	<b>29,100</b>

As at 30 June 2013 and 31 December 2012 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period and should be maintained at the level of 0 to 10 per cent of certain obligations of the Bank depending on its maturity and currency. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. In June 2013 the Bank's mandatory reserve average balance was UAH 2,309 million (December 2012: UAH 2,450 million).

As at 30 June 2013 and 31 December 2012 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level of 100% of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 10 times within a 3 month period. As at 30 June 2013 it was also required to maintain the balance on the separate account with the NBU at the level not less than 40% of the mandatory reserves balance for the preceding month (31 December 2012: not less than 50% of the mandatory reserves balance for the preceding month), as a part of the total required level of mandatory reserves; the amount is subject to interest payments from the side of the NBU at a rate of 2.100% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2012: the interest was 2.250%, which was calculated as 30% of the NBU official interest rate).

In addition, Ukrainian banks are required to keep other mandatory reserves on a separate account with the NBU for:

- impairment provisions (determined according to the NBU requirements) created for loans granted in foreign currency to borrowers with no foreign currency income;
- foreign currency deposits and loans received from non-residents for a period of less than 183 calendar days.

As at 30 June 2013 this provision of UAH 15 million (31 December 2012: UAH 9 million) has been placed on a separate account.

As of 30 June 2013 the mandatory reserve balances of the Bank's subsidiaries in Russia, Latvia, Cyprus and Georgia that should be kept with respective central banks were UAH 916 million (31 December 2012: UAH 753 million).

## **5 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents of UAH 3,240 thousand, that is 100% of the mandatory reserve balance with the NBU and other Central Banks (31 December 2012: UAH 3,212 million).

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
Total cash and cash equivalents and mandatory reserves	32,349	29,100
Less mandatory reserves balances	(3,240)	(3,212)
<b>Cash and cash equivalents for the purposes of the consolidated statement of cash flows</b>	<b>29,109</b>	<b>25,888</b>

As of 30 June 2013 mandatory reserve balance with the NBU of UAH 1,294 million (31 December 2012: UAH 1,294 million) have been pledged as a collateral for the refinancing loan received from the NBU. Refer to Note 7.

## **6 Loans and Advances to Customers**

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
Corporate loans	119,555	110,559
Loans to individuals - card	23,643	19,634
Loans to individuals - mortgage	4,193	4,446
Loans to individuals - consumer	1,015	1,184
Loans to individuals - auto	505	712
Loans to individuals - other	1,175	1,350
Loans to small and medium enterprises (SME)	1,668	1,297
Less: Provision for loan impairment	(20,089)	(19,765)
<b>Total loans and advances to customers</b>	<b>131,665</b>	<b>119,417</b>

As of 30 June 2013 interest income of UAH 1,718 million (31 December 2012: UAH 1,425 million) was accrued on loans and advances to customers impaired at the end of the reporting period.

## 6 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment for the six month period ended 30 June 2013 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals					SME	Total
	loans	Card	Mortgage	Auto	Consumer	Other		
<b>Provision for loan impairment at 1 January 2013</b>	<b>17,634</b>	<b>737</b>	<b>936</b>	<b>148</b>	<b>19</b>	<b>100</b>	<b>191</b>	<b>19,765</b>
Provision for impairment during the period	1,399	484	15	34	34	118	74	2,158
Amounts written off during the period as uncollectible	(1,145)	(356)	(86)	(84)	(31)	(11)	(93)	(1,806)
Currency translation differences	(4)	(23)	(1)	-	-	(1)	1	(28)
<b>Provision for loan impairment at 30 June 2013</b>	<b>17,884</b>	<b>842</b>	<b>864</b>	<b>98</b>	<b>22</b>	<b>206</b>	<b>173</b>	<b>20,089</b>

The provision for impairment for the six month period ended 30 June 2013 differs from the amount presented in profit or loss for the period due to UAH 525 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the six month period ended 30 June 2013.

Movements in the provision for loan impairment for the six month period ended 30 June 2012 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals					SME	Total
	loans	Card	Mortgage	Auto	Consumer	Other		
<b>Provision for loan impairment at 1 January 2012</b>	<b>13,740</b>	<b>618</b>	<b>1,061</b>	<b>254</b>	<b>12</b>	<b>21</b>	<b>244</b>	<b>15,950</b>
Provision/(reversal of provision) for impairment during the period	1,800	819	(48)	115	26	18	63	2,793
Amounts written off during the period as uncollectible	(911)	(342)	(38)	(160)	(22)	(6)	(99)	(1,578)
Currency translation differences	13	(6)	(2)	-	-	-	1	6
<b>Provision for loan impairment at 30 June 2012</b>	<b>14,642</b>	<b>1,089</b>	<b>973</b>	<b>209</b>	<b>16</b>	<b>33</b>	<b>209</b>	<b>17,171</b>

The provision for impairment for the six month period ended 30 June 2012 differs from the amount presented in profit or loss for the period due to UAH 194 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the six month period ended 30 June 2012.

## 6 Loans and Advances to Customers (Continued)

Economic and business sector risk concentrations within the customer loan portfolio are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>		<b>31 December 2012</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Oil trading	38,892	26	37,035	27
Loans to individuals	30,531	20	27,326	20
Ferroalloy trading and production	18,778	12	16,306	12
Manufacturing and chemicals	14,610	10	14,702	11
Agriculture, agricultural machinery and food industry	13,603	9	11,418	8
Commerce, finance and securities trading	10,997	7	8,872	6
Ski resorts, tourism and football clubs	6,300	4	6,097	4
Real estate construction	5,636	4	5,365	4
Air transportation	5,390	4	6,052	4
Small and medium enterprises (SME)	1,668	1	1,297	1
Other	5,349	3	4,712	3
<b>Total loans and advances to customers (before impairment)</b>	<b>151,754</b>	<b>100</b>	<b>139,182</b>	<b>100</b>

Disclosed in oil trading industry are UAH 38,892 million or 26% of gross loans and advances, (31 December 2012: UAH 37,035 million or 27%) issued to companies engaged in wholesale and retail sale of petrol, oil and oil products. These companies form an entire supply chain and due to it, based on the management estimation, the credit risk of these loans is lower. As at 30 June 2013 loans issued to these companies of UAH 38,408 million (31 December 2012: UAH 36,016 million) were collateralised with inventory of oil, gas and oil products, property rights for advances made by borrowers and corporate rights for shares in the share capital of borrowers and their guarantors with the collateral value of UAH 34,739 million (31 December 2012: UAH 33,786 million).

As of 30 June 2013 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 13,484 million (31 December 2012: UAH 12,727 million) or 9% of the gross loan portfolio (31 December 2012: 9%).

As of 30 June 2013 the Group had 1 borrower (31 December 2012: 1 borrower) with aggregate loan balances in excess of 10% of the net assets or UAH 2,208 million (31 December 2012: UAH 2,141 million). The total aggregate amount of these loans was UAH 2,606 million (31 December 2012: UAH 3,814 million).

As of 30 June 2013 mortgage loans of UAH 214 million (31 December 2012: UAH 240 million) have been pledged as collateral with respect to the mortgage bonds issued. Refer to Note 9.

As of 30 June 2013 loans issued to two corporate borrowers (31 December 2012: two corporate borrowers) of UAH 664 million (31 December 2012: UAH 669 million) were pledged as collateral under the NBU refinancing. Refer to Note 7.



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**6 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding as at 30 June 2013 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals				SME	Total
		Card	Mortgage	Auto	Consumer		
<i>Neither past due nor impaired</i>							
- Large borrowers with credit history with the Group over two years	73,467	-	-	-	-	448	- 73,915
- Large new borrowers with credit history with the Group less than 2 years	4,566	-	-	-	-	-	- 4,566
- Loans to medium size borrowers	6,514	-	-	-	-	106	17 6,637
- Loans to small borrowers	391	-	-	-	-	-	981 1,372
- Loans between UAH 1-100 million	-	10	138	-	-	-	- 148
- Loans less than UAH 1 million	-	21,451	1,345	234	919	374	- 24,323
<b>Total neither past due nor impaired</b>	<b>84,938</b>	<b>21,461</b>	<b>1,483</b>	<b>234</b>	<b>919</b>	<b>928</b>	<b>998 110,961</b>
<i>Past due but not impaired</i>							
- less than 30 days overdue	207	956	163	32	42	44	65 1,509
- 30 to 90 days overdue	526	410	118	20	22	43	58 1,197
<b>Total past due but not impaired</b>	<b>733</b>	<b>1,366</b>	<b>281</b>	<b>52</b>	<b>64</b>	<b>87</b>	<b>123 2,706</b>
<i>Loans individually determined to be impaired (gross)</i>							
- Not overdue	26,948	-	-	-	-	-	- 26,948
- less than 30 days overdue	226	-	-	-	-	-	- 226
- 30 to 90 days overdue	3,122	-	-	-	-	-	- 3,122
- 90 to 180 days overdue	624	375	113	15	22	87	31 1,267
- 180 to 360 days overdue	1,480	358	83	20	7	44	34 2,026
- over 360 days overdue	1,484	83	2,233	184	3	29	482 4,498
<b>Total individually impaired loans (gross)</b>	<b>33,884</b>	<b>816</b>	<b>2,429</b>	<b>219</b>	<b>32</b>	<b>160</b>	<b>547 38,087</b>
Less impairment provisions	(17,884)	(842)	(864)	(98)	(22)	(206)	(173) (20,089)
<b>Total loans and advances to customers</b>	<b>101,671</b>	<b>22,801</b>	<b>3,329</b>	<b>407</b>	<b>993</b>	<b>969</b>	<b>1,495 131,665</b>

**PrivatBank Group**  
**Selected Explanatory Notes to the Interim Management Statement**  
**for the Six Month Period Ended 30 June 2013 (Unaudited)**

**6 Loans and Advances to Customers (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals				SME	Total	
		Card	Mortgage	Auto	Consumer			Other
<i>Neither past due nor impaired</i>								
- Large borrowers with credit history with the Group over two years	66,123	-	-	-	-	434	-	66,557
- Large new borrowers with credit history with the Group less than 2 years	5,607	-	-	-	-	-	-	5,607
- Loans to medium size borrowers	5,265	-	-	-	-	115	39	5,419
- Loans to small borrowers	391	-	-	-	-	-	587	978
- Loans between UAH 1-100 million	-	17	173	-	-	-	-	190
- Loans less than UAH 1 million	-	17,637	1,533	334	1,106	679	-	21,289
<b>Total neither past due nor impaired</b>	<b>77,386</b>	<b>17,654</b>	<b>1,706</b>	<b>334</b>	<b>1,106</b>	<b>1,228</b>	<b>626</b>	<b>100,040</b>
<i>Past due but not impaired</i>								
- less than 30 days overdue	310	885	149	45	36	48	29	1,502
- 30 to 90 days overdue	33	369	98	33	19	26	37	615
<b>Total past due but not impaired</b>	<b>343</b>	<b>1,254</b>	<b>247</b>	<b>78</b>	<b>55</b>	<b>74</b>	<b>66</b>	<b>2,117</b>
<i>Loans individually determined to be impaired (gross)</i>								
- Not overdue	28,154	-	-	-	-	-	-	28,154
- less than 30 days overdue	1	-	-	-	-	-	-	1
- 30 to 90 days overdue	346	-	-	-	-	-	-	346
- 90 to 180 days overdue	1,961	328	95	23	18	11	31	2,467
- 180 to 360 days overdue	1,857	312	119	32	5	3	41	2,369
- over 360 days overdue	511	86	2,279	245	-	34	533	3,688
<b>Total individually impaired loans (gross)</b>	<b>32,830</b>	<b>726</b>	<b>2,493</b>	<b>300</b>	<b>23</b>	<b>48</b>	<b>605</b>	<b>37,025</b>
Less impairment provisions	(17,634)	(737)	(936)	(148)	(19)	(100)	(191)	(19,765)
<b>Total loans and advances to customers</b>	<b>92,925</b>	<b>18,897</b>	<b>3,510</b>	<b>564</b>	<b>1,165</b>	<b>1,250</b>	<b>1,106</b>	<b>119,417</b>

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

## **6 Loans and Advances to Customers (Continued)**

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Group believes that loans and advances to large and small sized borrowers with longer credit history are of a higher credit quality than the rest of the loan portfolio.

As at 30 June 2013 loans issued to the borrowers other than those engaged in oil trading of UAH 50,128 million (31 December 2012: UAH 46,378 million) were collateralised with corporate rights for shares in the share capital of these borrowers and their guarantors with the collateral value of UAH 49,332 million (31 December 2012: UAH 53,144 million). In addition these loans are collateralised by inventory and other assets.

Information on loans and advances to customers from transactions with related parties is disclosed in Note 16.

## **7 Due to the NBU and Due to Other Banks and Other Financing Institutions**

Due to the NBU at 30 June 2013 and 31 December 2012:

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
Term borrowings from the NBU	4,051	4,630
<b>Total due to the NBU</b>	<b>4,051</b>	<b>4,630</b>

Assets pledged under the NBU loans are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
Mandatory reserve balance with the NBU	5	1,294	1,294
Loans and advances to customers (before impairment)	6	664	669
Premises		941	947
Assets owned by related and third parties, some of those are borrowers of the Bank		4,922	4,910

**7 Due to the NBU and Due to Other Banks and Other Financing Institutions (Continued)**

Due to other banks and other financing institutions at 30 June 2013 and 31 December 2012:

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
Term placements of other commercial banks	2,504	1,821
Correspondent accounts and overnight placements of other banks	1,132	725
Long-term loans under the credit lines from other financing institutions	449	1,142
Pledge deposits of other banks	3	5
<b>Total due to other banks and other financial institutions</b>	<b>4,088</b>	<b>3,693</b>

**8 Customer Accounts**

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
<b>Individuals</b>		
- Term deposits	90,579	83,107
- Current/demand accounts	19,864	16,790
<b>Legal entities</b>		
- Term deposits	11,162	10,120
- Current/settlement accounts	19,737	14,557
<b>Total customer accounts</b>	<b>141,342</b>	<b>124,574</b>

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>		<b>31 December 2012</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	110,443	78	99,897	79
Trade	12,448	9	8,030	6
Manufacturing	5,480	4	4,405	4
Services	3,832	3	3,830	3
Agriculture	3,010	2	4,371	4
Transport and communication	1,843	1	1,988	2
Machinery	391	1	408	1
Other	3,895	2	1,645	1
<b>Total customer accounts</b>	<b>141,342</b>	<b>100</b>	<b>124,574</b>	<b>100</b>

At 30 June 2013 the aggregate balances of top 10 customers of the Group amount to UAH 10,557 million (31 December 2012: UAH 7,075 million) or 7% (31 December 2012: 6%) of total customer accounts.

At 30 June 2013 included in customer accounts are UAH 34 million deposits (31 December 2012: UAH 135 million) held as collateral for irrevocable commitments under import letters of credit, guarantees issued by the Group. Refer to Note 14.

## 8 Customer Accounts (Continued)

At 30 June 2013 included in customer accounts are deposits of UAH 5,327 million (31 December 2012: UAH 1,515 million) held as collateral for loans and advances to customers, issued by the Group.

## 9 Debt Securities in Issue

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>	<b>31 December 2012</b>
Private placements of bonds	6,751	6,355
Eurobonds	2,351	1,629
Mortgage bonds	141	172
<b>Total debt securities in issue</b>	<b>9,243</b>	<b>8,156</b>

In February 2013 the Group issued USD denominated Eurobonds with a par value of USD 175 million (UAH 1,400 million at exchange rate at the date of issue) maturing in February 2018. The bonds carry a coupon rate of 10.875% per annum. The Eurobonds are listed on the Irish Stock Exchange.

In September 2010 the Group issued USD denominated Eurobonds with a par value of USD 200 million (UAH 1,583 million at exchange rate at the date of issue) maturing in September 2015. The bonds carry a coupon rate of 9.375% per annum. The Eurobonds are listed on the London Stock Exchange.

## 10 Share Capital

<i>In millions of UAH except for number of shares</i>	<b>Number of outstanding shares, in millions</b>	<b>Nominal amount</b>
At 1 January 2012	64.64	13,545
<b>At 30 June 2012</b>	<b>64.64</b>	<b>13,545</b>
At 31 December 2012	64.64	14,897
<b>At 30 June 2013</b>	<b>64.64</b>	<b>14,897</b>

The nominal registered amount of the Bank's issued share capital at 30 June 2013 is UAH 14,897 million (31 December 2012: UAH 14,897 million). The total authorised number of ordinary shares 64.64 million shares (31 December 2012: 64.64 million shares) with a par value of UAH 230.45 per share (31 December 2012: UAH 230.45 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

## 11 Interest Income and Expense

<i>In millions of Ukrainian hryvnias</i>	<b>Six months ended 30 June 2013 (unaudited)</b>	<b>Six months ended 30 June 2012 (unaudited)</b>
<b>Interest income</b>		
Loans and advances to legal entities	6,393	5,890
Loans and advances to individuals	4,328	3,850
Due from other banks	148	71
Other	81	73
<b>Total interest income</b>	<b>10,950</b>	<b>9,884</b>
<b>Interest expense</b>		
Term deposits of individuals	4,752	3,615
Current/settlement accounts	630	485
Debt securities in issue	517	216
Term deposits of legal entities	352	319
Due to the NBU	204	263
Due to other banks and other financing institutions	170	113
Subordinated debt	36	44
Other	15	7
<b>Total interest expense</b>	<b>6,676</b>	<b>5,062</b>
<b>Net interest income</b>	<b>4,274</b>	<b>4,822</b>

Information on interest income and expense from transactions with related parties is disclosed in Note 16.

## 12 Fee and Commission Income and Expense

<i>In millions of Ukrainian hryvnias</i>	<b>Six months ended 30 June 2013 (unaudited)</b>	<b>Six months ended 30 June 2012 (unaudited)</b>
<b>Fee and commission income</b>		
Settlement transactions	1,273	1,161
Cash collection and cash transactions	731	536
Other	84	74
<b>Total fee and commission income</b>	<b>2,088</b>	<b>1,771</b>
<b>Fee and commission expense</b>		
Cash and settlement transactions	377	248
Other	10	20
<b>Total fee and commission expense</b>	<b>387</b>	<b>268</b>
<b>Net fee and commission income</b>	<b>1,701</b>	<b>1,503</b>

Information on fee and commission income from transactions with related parties is disclosed in Note 16.

## 13 Administrative and Other Operating Expenses

<i>In millions of Ukrainian hryvnias</i>	<b>Six months ended 30 June 2013 (unaudited)</b>	<b>Six months ended 30 June 2012 (unaudited)</b>
Staff costs	1,885	1,646
Rent	324	312
Contributions to Individual Deposits Guarantee Fund	259	188
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	242	173
Mail and telecommunication	205	133
Utilities and household expenses	189	183
Maintenance of premises, leasehold improvements and equipment	135	142
Taxes other than on income	128	69
Security	75	67
Advertising and marketing	54	39
Transportation	28	28
Other	184	319
<b>Total administrative and other operating expenses</b>	<b>3,708</b>	<b>3,299</b>

Included in staff costs is unified social contribution of UAH 459 million (30 June 2012: UAH 391 million). Pension contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 16.

#### 14 Contingencies and Commitments

**Capital expenditure commitments.** At 30 June 2013 the Group has contractual capital expenditure commitments in respect of construction of premises, purchase of computers and furniture and equipment totalling UAH 94 million (31 December 2012: UAH 57 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013</b> <b>(unaudited)</b>	<b>31 December</b> <b>2012</b>
Import letters of credit	1,481	861
Guarantees issued	795	868
Irrevocable commitments to extend credit	102	86
Less: Cash covered letters of credit	(34)	(135)
Less: Provision for credit related commitments	(52)	(90)
<b>Total credit related commitments</b>	<b>2,292</b>	<b>1,590</b>

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments as of 30 June 2013 and 31 December 2012 was insignificant.

As of 30 June 2013 the Group had undrawn credit limits on credit cards of UAH 29,648 million (31 December 2012: UAH 28,110 million) that are available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally. Provision for undrawn credit limits on credit cards was not significant as of 30 June 2013 and 31 December 2012.

As of 30 June 2013 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount UAH 34 million (31 December 2012: UAH 135 million) are secured by customer accounts of UAH 34 million (31 December 2012: UAH 135 million). Refer to Note 8.



#### 14 Contingencies and Commitments (Continued)

**Fiduciary assets.** These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013</b>	<b>31 December 2012</b>
	<b>Nominal value</b>	<b>Nominal value</b>
Shares of Ukrainian companies	6,140	6,095
Domestic corporate bonds	1,474	1,630
Investment certificates	1,361	1,382

**Funds under trust management.** Funds under trust management represent assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such assets. The Group is not subject to interest, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers. Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans. As of 30 June 2013 assets under trust management amounted to UAH 320 million (31 December 2012: UAH 191 million).

**Assets pledged and restricted.** The Group had assets pledged as collateral and reserved for spot transactions with the following carrying value:

<i>In millions of Ukrainian hryvnias</i>	Note	<b>30 June 2013 (unaudited)</b>		<b>31 December 2012</b>	
		<b>Asset pledged and reserved</b>	<b>Related liability/commitment</b>	<b>Asset pledged and reserved</b>	<b>Related liability/commitment</b>
Gross receivables under swap, forward and spot agreements		23,667	23,695	35,365	35,445
Loans and advances to customers	6, 9	214	141	291	172
Cash balances with the NBU, premises, loans and advances to customers, investment securities held to maturity	5, 6, 7	3,059	4,051	2,910	4,630
<b>Total</b>		<b>26,940</b>	<b>27,887</b>	<b>38,566</b>	<b>40,247</b>

As of 30 June 2013 for the purposes of UAH liquidity management the Group made USD denominated placement with OECD banks in the amount of UAH 6,755 million (31 December 2012: UAH 6,755 million) that are pledged under loans, issued by those banks to certain corporate companies. These funds were then used for the purchase of bonds in the amount of UAH 6,755 million (31 December 2012: UAH 6,355 million and placement on the current account with the Group of UAH 400 million).

As of 30 June 2013 the Group had outstanding loans issued to corporate clients in the amount of UAH 1,594 million (31 December 2012: UAH 2,170 million) that placed these funds on the current and term accounts of UAH 1,441 million (31 December 2012: UAH 2,029 million) with the Group.

## 15 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>		<b>31 December 2012</b>	
	<b>Contracts with positive fair value</b>	<b>Contracts with negative fair value</b>	<b>Contracts with positive fair value</b>	<b>Contracts with negative fair value</b>
<b>Foreign exchange swaps, forwards and spots: fair values, at the end of the reporting period date, of</b>				
- USD receivable on settlement (+)	6,711	2,615	9,592	4,526
- USD payable on settlement (-)	(1,121)	(13,639)	(977)	(20,330)
- Euros receivable on settlement (+)	140	12,745	843	14,392
- Euros payable on settlement (-)	(6,625)	(21)	(5,696)	(2,133)
- UAH receivable on settlement (+)	400	-	86	-
- UAH payable on settlement (-)	-	(2,376)	(791)	(2,339)
- RUB receivable on settlement (+)	581	874	-	5,875
- RUB payable on settlement (-)	-	-	(2,934)	-
- Other currencies receivable on settlement (+)	1	-	51	-
- Other currencies payable on settlement (-)	(81)	(232)	(156)	(89)
<b>Net fair value of foreign exchange swaps, forwards and spots</b>	<b>6</b>	<b>(34)</b>	<b>18</b>	<b>(98)</b>

At 30 June 2013, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 20,975 million (31 December 2012: UAH 31,676 million). These transactions are presented in consolidated statement of financial position on a net basis. The net fair value of unsettled spot transactions is insignificant.

For the six month period ended 30 June 2013 the Group received a loss of UAH 221 million (30 June 2012: a loss of UAH 29 million) resulting from foreign exchange swaps, forwards and spots that is accounted for in other gains less losses/(losses less gains) of the consolidated statement of comprehensive income.

As of 30 June 2013 the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 2,993 million (31 December 2012: UAH 2,750 million). For the six month period ended 30 June 2013 the Group recognised a loss of UAH 48 million (30 June 2012: a loss of UAH 50 million) in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH devaluation against USD. This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 7.99 to UAH 0.00 per USD 1 (31 December 2012: UAH 7.98 to UAH 7.99 per USD 1).

## 16 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, joint control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 30 June 2013 and 31 December 2012, the outstanding balances with related parties were as follows:

<i>In millions of Ukrainian hryvnias</i>	30 June 2013 (unaudited)			31 December 2012		
	Significant share - holders	Manage- ment under control of major shareholders	Companies under control of major shareholders	Significant share - holders	Manage- ment under control of major shareholders	Companies under control of major shareholders
Gross amount of loans and advances to customers (contractual interest rate: 2013: UAH - 11%, USD - 11%, EUR - 11%; 2012: UAH - 12%, USD - 11%, EUR - 11%)	4	14	14,884	-	10	12,843
Impairment provisions for loans and advances to customers	-	-	(5,119)	-	-	(4,677)
Loans and advances to customers written off as uncollectable	-	-	-	-	-	(848)
Financial derivatives	-	-	76	-	-	79
Other financial assets	-	-	2	-	-	46
Other assets	-	-	132	-	-	142
Customer accounts (contractual interest rate: 2013: UAH - 12%, USD - 3%, EUR - 7%; 2012: UAH - 6%, USD - 6%, EUR - 11%)	331	103	2,244	570	83	3,214
Subordinated debt (contractual interest rate: 2013: UAH - 6%, RUR - 1%; 2012: UAH - 6%, RUR - 1%)	-	-	157	-	-	156

The income and expense items with related parties for the six month period ended 30 June 2013 and 30 June 2012 were as follows:

<i>In millions of Ukrainian hryvnias</i>	30 June 2013 (unaudited)			30 June 2012 (unaudited)		
	Significant share - holders	Manage- ment under control of major shareholders	Companies under control of major shareholders	Significant share - holders	Manage- ment under control of major shareholders	Companies under control of major shareholders
Interest income	6	-	656	8	-	524
Interest expense	(7)	(6)	(112)	(13)	(4)	(108)
Provision for loan impairment	-	-	(436)	-	-	(844)
Fee and commission income	-	-	26	-	-	35
Losses less gains from financial derivatives	-	-	52	-	-	-
Other operating income	-	-	6	-	-	4
Administrative and other operating expenses, excluding management remuneration	-	-	(33)	-	-	(73)

## 16 Related Party Transactions (Continued)

At 30 June 2013 and 31 December 2012, other rights and obligations with related parties were as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>		<b>31 December 2012</b>	
	<b>Companies under control of major shareholders</b>		<b>Companies under control of major shareholders</b>	
Guarantees issued		37		38
Import letters of credit		32		-
<b>Total credit related commitments</b>		<b>69</b>		<b>38</b>

Aggregate amounts lent to and repaid by related parties during the six month period ended 30 June 2013 and 30 June 2012 were:

<i>In millions of Ukrainian hryvnias</i>	<b>30 June 2013 (unaudited)</b>			<b>30 June 2012 (unaudited)</b>		
	<b>Significant share - holders</b>	<b>Manage- ment</b>	<b>Companies under control of major shareholders</b>	<b>Significant share - holders</b>	<b>Manage- ment</b>	<b>Companies under control of major shareholders</b>
Amounts lent to related parties during the period	902	32	12,171	688	10	3,543
Amounts repaid by related parties during the period	904	27	10,785	696	10	2,298

The remuneration of members of the Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 12 million for the six month period ended 30 June 2013 (30 June 2012: UAH 11 million).

## 17 Events After the End of the Reporting Period

In July 2013 the NBU registered the increase of share capital of the Bank in the amount of UAH 1,455 million. After the registration, total authorised nominal share capital amounts to UAH 16,352 million.

In August 2013 the Group issued UAH denominated private placements of bonds with a par value of UAH 400 million maturing in July 2016. The bonds carry a coupon rate of 16% per annum.