RCB BANK LTD

(formerly Russian Commercial Bank (Cyprus) Limited)

Report and Consolidated Financial Statements 2013

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(formerly Russian Commercial Bank (Cyprus) Limited)

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Governance

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Board of Directors and other officers

Board of Directors

Panayiotis Loizides (Chairman since 25 April 2014, non-executive, independent)
Mikhail Kuzovlev (Chairman until 25 April 2014, non-executive)
Vadim Levin (non-executive)
Otar Marganiya (non-executive)
Sotos Zackheos (executive)
Kirill Zimarin (Chief Executive Officer)
Christophoros Pissarides (non-executive, independent)
Andrey Puchkov (non-executive) (resigned on 25 April 2013)
Natalia Solozhentseva (non-executive) (resigned on 25 April 2013)

Secretary

Petr Zaytsev
7 Agiou Fanouriou Street
Agios Athanasios
CY-4103 Limassol

Registered office

2 Amathuntos Street
CY-3105 Limassol

Report of the Board of Directors

01. The Board of Directors presents its report together with the audited consolidated financial statements of RCB BANK LTD (formerly Russian Commercial Bank (Cyprus) Limited) (the "Bank") and its subsidiary (together, the "Group") for the year ended 31 December 2013.

Principal activity

02. The principal activity of the Group, which is unchanged from last year, is the provision of banking services on the basis of the licence granted by the Central Bank of Cyprus.

Review of developments, position and performance of the Group's business

03. As at 31 December 2013, the client loan portfolio of the Group decreased by 38% to US$8,8 billion compared to US$14,1 billion as at 31 December 2012. Net profit after tax for the year was US$100,6 million compared to US$105,1 million in the year 2012. The return on shareholders' equity for the year 2013 was 26,5% compared to 27,7% in 2012, the return on assets for the year 2013 was 0,9% compared to 0,59% in 2012, and operating expenses over profit before tax and operating expenses remained relatively stable (from 60% in 2012 to 59% in 2013). The average number of employees increased from 236 to 240 compared to the previous year.

Principal risks and uncertainties

04. The principal risks assumed by the Group are banking and reputational risk. Banking risk refers to credit, liquidity, market and operational risk. Within credit risk the most significant for the Group is concentration risk, due to concentration of assets in a limited number of countries and counterparties which is adequately monitored by management. Market risk is also significant, due to the uncertainty concerning changes in foreign exchange rates and interest rates. Of lower significance is liquidity risk, defined as the inability of the Group to fulfil its obligations as they fall due and operational risk arising from failure of internal controls. Reputational risk is mainly managed at the group level.

Future developments of the Group

05. The Board of Directors will closely monitor the current political and economic environment in countries where the Group has significant exposures and take measures accordingly.

Results

06. The Group's results for the year are set out on page 11.

Dividends

07. In December 2013, the Board of Directors approved a dividend payout out of reserves amounting to US$100.000.000 (US$12 per share). The dividend was paid in December 2013.

08. The Board of Directors does not recommend a further dividend and the profit for the year is retained.

Share capital

09. There were no changes to the share capital of the Bank during the year.

Board of Directors

10. The members of the Board of Directors at 31 December 2013 and at the date of this report are shown on page 4. All of them were members of the Board throughout the year 2013, except for Mr Puchkov and Ms Solozhentseva who resigned on 25 April 2013.

11. There being no requirement in the Bank's Articles of Association for retirement of Directors by rotation, all Directors remain in office.

12. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Change of Name

13. On 15 November 2013, the legal name of the Bank was changed from Russian Commercial Bank (Cyprus) Limited to RCB BANK LTD.

Events after the balance sheet date

14. There are no material events after the balance sheet date, which have a bearing on the understanding of the consolidated financial statements except for those disclosed in Note 33.

Branches

15. The Group operates through the Bank's two branches in Cyprus and has representative offices in the Russian Federation and in the United Kingdom. In 2014 a new branch was opened in Luxemburg which will be fully operational soon.

Independent auditors

16. The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board
Petr Zaytsev
Secretary
Limassol, 25 April 2014

Corporate Governance Report

RCB BANK LTD (formerly Russian Commercial Bank (Cyprus) Limited) (the "Bank") and its subsidiary (together, the "Group") consider that by following the principles of Corporate Governance - the system by which the Group is directed and run – it assists in the achievement of an appropriate and effective governance which safeguards the interests of its shareholders.

The Board

The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. It oversees and controls the Group as well as formulates the Group's strategy and future development. In this context the Board monitors and examines the targets and strategic policy objectives, the annual budget, significant capital expenditure, unusual transactions, transactions with related parties, and the Group's financial performance.

As of 31 December 2013, the Board of Directors consists of seven directors (2012: nine directors), five of whom are non-executive (2012: seven non-executive). Two of the non-executive directors (2012: two non-executive) are independent.

There is a clear division of responsibility between the positions of the Chairman of the Board of Directors who presides over the Board meetings, and the position of the Chief Executive Officer who is responsible for the implementation of the Board's policy and financial strategy.

The Board of Directors ensures that the system of internal controls is satisfactory based on the report received by the Internal Audit Committee.

The Board meets sufficiently regularly to discharge its duties effectively.

The Audit Committee

The main role and responsibilities of the Audit Committee are set out in its written terms of reference.

The Audit Committee ensures the implementation of the principles governing the preparation of the financial reports, the effectiveness of the internal control system and the independence of the external and internal auditors.

For and on behalf of the Board of Directors
Kirill Zimarin
Chief Executive Officer
Limassol, 25 April 2014

Consolidated Financial Statements 31 December 2013

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Independent auditor's report

To the Members of RCB BANK LTD

(formerly Russian Commercial Bank (Cyprus) Limited)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of RCB BANK LTD (formerly Russian Commercial Bank (Cyprus) Limited) (the "Bank") and its subsidiary (together with the Bank, the "Group"), which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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PricewaterhouseCoopers Ltd is a member firm of PricewaterhouseCoopers International Ltd, each member firm of which is a separate legal entity. PricewaterhouseCoopers Ltd is a private company registered in Cyprus (Reg. No. 143594). A list of the company's directors including for individuals the present name and surname, as well as any previous names and for legal entities the corporate name, is kept by the Secretary of the company at its registered office at 3 Themistocles Dervis Street, 1066 Nicosia and appears on the company's web site. Offices in Nicosia, Limassol, Larnaca and Paphos.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Stelios Constantinou
Certified Public Accountant and Registered Auditor
For and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 25 April 2014

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Note	2013 US$000	2012 US$000
Interest income	6	960.074	910.159
Interest expense	6	(827.340)	(726.234)
Net interest income		**132.734**	**183.925**
Loan impairment charges	7	(12.873)	(1.366)
Net interest income after loan impairment charges		**119.861**	**182.559**
Fee and commission income	8	12.159	7.723
Fee and commission expense	8	(3.436)	(3.763)
Net fee and commission income		**8.723**	**3.960**
Other gains – net	9	159.043	117.174
Operating expenses	10	(171.079)	(183.042)
Profit before tax		**116.548**	**120.651**
Tax	12	(15.944)	(15.521)
Profit for the year		**100.604**	**105.130**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**100.604**	**105.130**

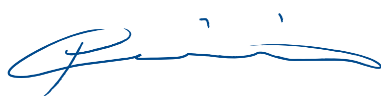
The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

Consolidated balance sheet

at 31 December 2013

	Note	2013 US$000	2012 US$000
Assets			
Cash and balances with central banks	13	116.713	519.367
Loans and advances to banks	14	1.093.325	1.247.156
Financial assets at fair value through profit or loss	15	1.178.062	2.308.611
Derivative financial instruments	16	1.840	733
Loans and advances to customers	17	8.798.991	14.111.123
Property, plant and equipment	18	22.611	22.806
Intangible assets	19	2.885	3.537
Deferred income tax assets	20	217	91
Other assets	21	21.873	19.019
Total assets		**11.236.517**	**18.232.443**
Liabilities			
Deposits from banks	22	8.011.648	14.288.053
Due to customers	23	2.385.056	3.393.186
Financial liabilities at fair value through profit or loss	24	97.499	-
Derivative financial instruments	16	1.253	1.646
Debt securities in issue	25	107.136	16.511
Other liabilities	26	150.330	50.393
Current income tax liabilities		2.929	2.592
Subordinated debt	27	100.511	100.511
Total liabilities		**10.856.362**	**17.852.892**
Equity			
Capital and reserves attributable to the equity holders			
Share capital	28	18.070	18.070
Share premium	28	31.726	31.726
Retained earnings		330.359	329.755
Total equity		**380.155**	**379.551**
Total equity and liabilities		**11.236.517**	**18.232.443**

On 25 April 2014 the Board of Directors of RCB BANK LTD (formerly Russian Commercial Bank (Cyprus) Limited) authorised these consolidated financial statements for issue.



Panayiotis Loizides
Chairman Non-Executive Independent

Kirill Zimarin
Chief Executive Officer

Sotos Zackheos
Executive Director

Petr Zaytsev
Secretary

The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Note	Share capital US$000	Share premium US$000	Retained earnings US$000	Total US$000
Balance at 1 January 2012		**18.070**	**31.726**	**324.625**	**374.421**
Comprehensive income					
Profit for the year		-	-	105.130	105.130
Transactions with owners					
Dividends out of reserves	32	-	-	(100.000)	(100.000)
Balance at 31 December 2012		**18.070**	**31.726**	**329.755**	**379.551**
Comprehensive income					
Profit for the year		-	-	100.604	100.604
Transactions with owners					
Dividends out of reserves	32	-	-	(100.000)	(100.000)
Balance at 31 December 2013		**18.070**	**31.726**	**330.359**	**380.155**

The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2013

	Note	2013 US$000	2012 US$000
Cash flows from operating activities			
Interest received		996.074	904.545
Interest paid		(675.372)	(554.218)
Gains from financial assets at fair value through profit or loss		176.783	102.661
(Losses)/gains from dealing in foreign currency		(9.613)	7.553
Fees and commissions received		22.295	6.347
Fees and commissions paid		(3.436)	(3.763)
Other operating income received		137	448
Operating expenses paid		(162.833)	(183.116)
Income tax paid		(15.697)	(16.334)
Cash flows generated from operating activities before changes in operating assets and liabilities		**328.338**	**264.123**
Net decrease in mandatory reserve deposits with central banks		40.106	99.248
Net decrease/(increase) in financial assets at fair value through profit or loss		1.121.203	(1.827.422)
Net increase in amounts due from banks		(43.801)	(807.415)
Net decrease/(increase) in loans and advances to customers		5.263.047	(2.527.534)
Net (increase)/decrease in other assets		(14.820)	5.733
Net (decrease)/increase in amounts due to banks		(6.426.326)	3.662.960
Net (decrease)/increase in customer accounts		(999.188)	437.131
Net increase/(decrease) in promissory notes issued		88.806	(5.307)
Net increase in other liabilities		192.580	19.188
Net cash used in operating activities		**(450.055)**	**(679.295)**
Cash flows from investing activities			
Purchases of property, plant and equipment	18	(2.806)	(14.146)
Proceeds from disposal of property, plant and equipment	18	94	2.109
Purchases of intangible assets	19	(458)	(4.044)
Net cash used in investing activities		**(3.170)**	**(16.081)**
Cash flows from financing activities			
Dividends paid	32	(100.000)	(100.000)
Proceeds from subordinated debt	27	-	100.000
Interest paid on subordinated debt	27	(7.168)	(3.594)
Net cash used in financing activities		**(107.168)**	**(3.594)**
Net decrease in cash and cash equivalents		**(560.393)**	**(698.970)**
Cash and cash equivalents at beginning of year		786.827	1.485.797
Cash and cash equivalents at end of year	**30**	**226.434**	**786.827**

The notes on pages 15 to 63 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Country of incorporation

RCB BANK LTD (formerly Russian Commercial Bank (Cyprus) Limited) (the "Bank") and its subsidiary (together, the "Group") are involved in the provision of banking services. The Bank is incorporated and domiciled in Cyprus and operates as a bank under licence from the Central Bank of Cyprus dated 1 August 1995. As at 31 December 2013, its registered office and its principal place of business are at 2 Amathuntos Street, CY-3105 Limassol, Cyprus.

The wholly owned subsidiary, Russian Commercial Trust Company (Jersey) Ltd, is incorporated and domiciled in Jersey. The Bank contributed US$675 thousand to its share capital in January 2011. As of 31 December 2013, the subsidiary is not fully operational.

Principal activity

The principal activity of the Bank is the provision of banking services on the basis of the licence granted by the Central Bank of Cyprus. The Bank's subsidiary is involved in the provision of trust company services.

2. Operating environment of the Group

The Bank is regulated by the Central Bank of Cyprus and is required to comply with the Cyprus Banking Law, the Directives issued from time to time by the Central Bank of Cyprus and the EU Directives implemented by the Republic of Cyprus.

Cyprus operating environment

The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. These events led to negotiations between the Republic of Cyprus and the European Commission, the European Central Bank and the International Monetary Fund (the "Troika") for financial support which resulted into the Eurogroup decision on 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through a "bail in". Additionally, during 2013 the Cyprus economy further contracted with a decrease in the Gross Domestic Product.

Following the positive outcome of the first and second quarterly reviews of Cyprus's economic programme by the European Commission, the European Central Bank and the International Monetary Fund during 2013, the Eurogroup endorsed the disbursement of the scheduled tranches of financial assistance to Cyprus.

The Bank held no bank balances in the above two Cypriot banks as at 26 March 2013, the date of implementation of "bail in", and as at 31 December 2013.

Russian operating environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (Note 29).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

Management determined loan impairment provisions using 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, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

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. The majority of the Group's clients' operations and the holding company of the Group are based in the Russian Federation. The Bank operates under the guarantee of the holding bank, JSC VTB Bank.

3. Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113.

The consolidated financial statements comprise the consolidated statement of comprehensive income, consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes.

As of the date of the authorisation of the consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2013 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss, derivatives, and land and buildings.

The Group classifies its expenses by the function of expense method.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Adoption of new and revised IFRSs

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2013. This adoption did not have a material effect on the accounting policies of the Group with the exception of the following:

- IFRS 13, "Fair Value Measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Standard resulted in additional disclosure in these consolidated financial statements.

At the date of approval of these consolidated financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below:

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

  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary.

Consolidation

A. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies applied by the Group.

B. Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in the carrying amount recognised in profit or loss. The fair value is the initial amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Interest income and expense

Interest income and expense for all interest bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the consolidated statement of comprehensive income using the effective interest method.

Income on financial assets at fair value through profit or loss is included in the consolidated statement of comprehensive income within 'other gains - net' in the period in which it arises.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other commissions, premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiations of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities are recognised on the completion of the underlying transactions. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised reliably over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Agency fee income whereby the Group acts as an agent of a third party in entering and completing a transaction on pre-determined terms and conditions are recognised over the term of the arrangement based on the services performed to date as a percentage of the total services to be performed.

Employee benefits

The Bank and the employees contribute to the Government Social Insurance Fund based on employees' salaries. In addition, the Bank operates provident fund schemes that are funded by payments from the Bank and the employees. The Bank's contributions are expensed when due and are included in staff costs. The Bank has no further payment obligations once the contributions have been paid.

Foreign currency translation

A. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in United States Dollars (US$) which is the Group's presentation currency and the functional currency of the Bank and its subsidiary.

B. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Translation differences on non monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined and are recognised in profit or loss, as part of the fair value gain or loss.

C. Group companies

The results and financial position of all the Group companies (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction effects neither accounting nor tax profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities

relate to income taxes levied by the same taxation authority on the Group and where there is an intention to settle the balances on a net basis.

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

Financial assets

I. Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

- **Financial assets at fair value through profit or loss**

  This category has two sub categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term or it is 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-making. Derivatives are also categorised as held for trading.

  Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Group's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel.

  Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

- **Loans and receivables**

  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 Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
  - those that the Group upon initial recognition designates as available for sale;
  - those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

  They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non current assets.

II. Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the settlement date which is the date on which the asset is delivered to the Group. Loans and receivables are recognised when cash is advanced to the borrowers. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'other gains - net' in the period in which they arise. Coupon income on debt instruments classified as financial assets held for trading is also included in the consolidated statement of comprehensive income within ‘other gains - net’ in the period in which it arises.

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.The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial assets traded in an active market is measured as the product of the quoted price for the individual asset and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price.

A portfolio of financial assets that are not traded in an active market is measured on the basis of the price that would be received to sell a net long position for a particular risk exposure in an orderly transaction between market participants at the measurement date. Valuation techniques such as discounted cash flow models or models based on recent arm’s lengh transactions or consideration of financial data of the investees, are used to measure fair value of certain financial assets for which external market pricing information is not available.

Financial assets at fair value through profit or loss for which downside risk is covered by bank guarantees, are carried at the higher of their fair value, as estimated by use of valuation techniques, and the amount guaranteed by a bank.

Reclassification of financial assets

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the ‘at fair value through profit or loss’ category all embedded derivatives are re-assessed and, if necessary, separately accounted for.

The Group has not reclassified any financial assets during the year ended 31 December 2013 and 31 December 2012.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Derivative financial instruments

Derivative financial instruments, which comprise mainly currency derivative contracts, are initially recognised in the balance sheet at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained using valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value

is negative. Gains or losses arising from currency derivative contracts are shown in the consolidated statement of comprehensive income within 'other gains - net'. Certain derivatives embedded in other financial instruments such as prepayment options in loan contracts, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss. The Group does not apply hedge accounting.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the consolidated financial statements.

Impairment of financial assets

A. Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired.

A financial asset or a group of financial assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets are impaired includes observable data that come to the attention of the Group about the following loss events:

I. significant financial difficulty of the issuer or obligor;
II. a breach of contract, such as a default or delinquency in interest or principal payments;
III. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
IV. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
V. the disappearance of an active market for that financial asset because of financial difficulties;
VI. deterioration of the borrower's competitive position;
VII. deterioration in the value of collateral;
VIII. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Group considers a financial asset being individually significant if its carrying amount equals or exceeds 1% of the Bank's own funds. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment to the extent applicable to the Group given the nature of its operations, the small number of loans and availability

of the necessary data. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors) to the extent applicable to the Group given the nature of its operations, the small number of loans and availability of the necessary data. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income, in impairment charge for credit losses.

B. Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years that asset is considered to be past due and disclosed only if renegotiated again.

Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is 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. Financial liabilities designated as at fair value through profit or loss at inception are those that are managed and their performance

is evaluated on a fair value basis, in accordance with the Group's documented strategy. They include obligations to deliver financial assets borrowed by a short seller.

The quoted market price for financial liabilities is the current asking price.

Gains and losses arising from changes in fair value of financial liabilities at fair value through profit or loss are presented in the consolidated statement of comprehensive income within 'other gains-net' in the period in which they arise.

Borrowings, debt securities in issue and subordinated debt

Borrowings and debt securities in issue including subordinated debt are recognised initially at fair value, net of transaction costs incurred. Borrowings and debt securities in issue are subsequently stated at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in interest expense in the consolidated statement of comprehensive income over the period of the borrowings and debt securities in issue using the effective interest method.

Borrowings and debt securities in issue are derecognised when they are extinguished that is, when the obligation is discharged, cancelled or expires.

When there are changes in terms of the financial liability, the Group considers whether the new terms are substantially different. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. Qualitative factors are also taken into consideration in deciding when there is a substantial change in the terms of the financial liabilities. These include changes in the currency denomination and substantial changes in the maturity profile of the financial liability. In such cases, the Group treats the modification as an extinguishment.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment, which is reported within 'other gains - net'. If the exchange or modification is not accounted for as an extinguishment, the Group recognises any gain or loss as an adjustment to the carrying amount of the liability and with a related charge or credit in the profit or loss. Related costs or fees incurred are amortised over the remaining term of the modified liability using the original effective interest rate.

When the estimates of payments to settle the financial liability are amended to reflect actual and estimated cash flows, the Group recalculates the carrying amount of the liability by computing the present value of estimated future cash flows at the financial liability's effective interest rate and any adjustment is recognised as income or expense in the consolidated statement of comprehensive income.

The rights of the lender under the subordinated debt are at all times subordinated to the rights of all other creditors of the Bank.

Property, plant and equipment

Land and buildings comprise the Group's premises. The premises of the Group are recognised at revalued amounts less accumulated depreciation and impairment provision when necessary.

The frequency of revaluations depends upon the changes in the fair values of premises being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment may experience significant and volatile movements in fair value thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant movements in fair value. Instead, revaluation every five years may be sufficient.

The fair value of land and buildings is usually determined from market based evidence by appraisal normally undertaken by professionally qualified valuers.

The depreciation after the date of the revaluation is calculated on the basis of the revalued carrying value of this asset.

All other items of property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Increases in the carrying amount arising on revaluation of land and buildings are credited in other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Land is not depreciated. Depreciation on other assets is calculated on the straight line method to allocate the cost to their residual values over their estimated useful lives. The annual depreciation rates are as follows:

	%
Buildings	4
Furniture and equipment	10 – 33
Motor vehicles	20

The assets' residual values and useful lives are renewed and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2013 and 31 December 2012.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the profit or loss of the year in which it was incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and these are included in operating expenses in the consolidated statement of comprehensive income.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which usually does not exceed three years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software costs are amortised using the straight line method over their estimated useful lives, not exceeding a period of three years. Amortisation commences when

the computer software is available for use and is included within administrative expenses. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Leases

The leases entered into by the Group are exclusively operating leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to operating expenses in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

No non-financial assets were impaired in 2013 and 2012.

Other receivables and payables

Other receivables and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than one month maturity from the date of acquisition, including cash and non-restricted balances with central banks and amounts due from other banks.

Repossessed properties

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and are reported within 'other assets'. As of 31 December 2013 and 31 December 2012 no repossessed properties were held by the Group.

Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of corporate entities, trusts, individuals and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group. Commissions received from fiduciary activities are presented in the consolidated statement of comprehensive income within 'fee and commission income' in the period in which they arise.

Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee is given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premium is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation of fees calculated to recognise in the consolidated statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. Any increase in the liability relating to guarantees is taken to the consolidated statement of comprehensive income within operating expenses.

Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Group. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Bank's shareholders.

4. Financial risk management

4.1. General

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Risk Management Department is responsible for developing and monitoring the Group's risk management policies. The Department reports quarterly to the Board of Directors on its activities.

The Group's risk management policies are designed to identify and analyse the risks faced by the Group, to set the appropriate risk limits and controls and to monitor the risks and adherence to limits. Risk management

policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. The Internal Audit Department discusses the results of all assessments with the management and reports its findings and recommendations to the Audit Committee.

The risks arising from financial instruments to which the Group is exposed are financial risks, which include credit risk, liquidity risk, market risk and operational risk (which are discussed below).

4.2. Credit risk

4.2.1. Credit risk

Credit risk is the risk of financial loss being incurred by the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations to the Group. Credit risk arises mainly from loans and advances to customers, and loan commitments, arising from such lending activities, but can also arise from financial guarantees, investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including derivatives and reverse repurchase loans.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. All new exposures and limits are approved by the Credit, Assets and Liabilities Committee.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is largely managed by detailed credit risk assessment performed by the Corporate Banking Department or the Commercial Business Department prior to the issue of loans and by ensuring that adequate collateral is obtained. The assessments are independently reviewed by the Risk Management Department.

Exposure to credit risk is moderate, as most of the loans and advances to customers are either secured by VTB group guarantees or collateralised by cash deposits. The majority of the loans covered by VTB group guarantees are also secured by obtaining third-party collateral, including securities, personal guarantees, and mortgages on property. The Group uses independent appraisers to estimate the market values of collateralised properties.

The main considerations for the impairment assessment for loans and advances to customers and banks include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

All the loans are individually assessed for impairment. Most of the loans of the Group are covered by deposits and/or bank guarantees. The bank guarantees are exercisable upon presentation, hence, the expected cash flows from the collateral are expected to be received following the date on which the deposit and/or the guarantee is exercised. Hence, the Group does not expect to incur any credit losses on these loans.

For debt securities, external ratings such as Standard & Poor's, Fitch and Moody's ratings and assessments performed by the Risk Management Department are used for managing the credit risk exposures. The investments in these securities are viewed as a way to maintain a readily available source to meet any funding requirements.

Trading credit products for which downside risk is covered by bank guarantees are considered to be of equal credit quality as exposures to these banks/companies as they carry their ultimate credit risk.

The Group does not hold any collateral for financial assets other than loans and advances to customers, debt instruments held for trading and letters of guarantee. For credit related commitments, commitments to extend credit, representing unused portions of authorisations to extend credit in the form of loans or guarantees, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as all commitments are contingent upon customers providing the requested collateral.

4.2.2. Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure to credit risk for both on-balance sheet and off-balance sheet components. The maximum exposure is shown gross, without taking into consideration any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the consolidated balance sheet.

	Maximum exposure	
	2013 US$000	2012 US$000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with central banks	114.569	517.348
Loans and advances to banks:		
- VTB group	32.155	64.967
- Non-VTB group	1.061.170	1.182.189
Financial assets at fair value through profit or loss:		
- Debt instruments	1.145.627	1.335.984
- Loaned debt instruments	-	969.840
- Debt securities pledged under repurchase agreements	32.435	-
Derivative financial instruments	1.840	733
Loans and advances to customers:		
- Legal entities by purpose of facility:		
· Project finance	320.790	475.267
· Current activity financing	6.583.509	10.399.724
· Reverse repurchase agreements	87.077	5.098
· Other	1.505.185	3.087.336
- Individuals by purpose of facility:		
· Mortgage	31.228	23.400
· Reverse repurchase agreements	574	2.804
· Other	270.628	117.494
Other financial assets	13.326	14.590
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	23.330	70.843
Loan commitments	350.944	595.172
At 31 December	**11.574.387**	**18.862.789**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

4.2.3. Loans and advances

	Loans and advances to customers		Loans and advances to banks		Loans and advances to central banks	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Neither past due nor impaired	7.858.777	13.377.868	1.093.325	1.247.156	114.569	517.348
Past due but not impaired	913.941	731.538	-	-	-	-
Impaired	47.035	9.454	-	-	-	-
Gross	**8.819.753**	**14.118.860**	**1.093.325**	**1.247.156**	**114.569**	**517.348**
Less: allowance for impairment	(20.762)	(7.737)	-	-	-	-
Net	**8.798.991**	**14.111.123**	**1.093.325**	**1.247.156**	**114.569**	**517.348**

The total impairment provision for loans and advances is US$20.762 thousand (2012: US$7.737 thousand), which represents the individually impaired loans for which a provision has been raised.

A. Loans and advances to customers neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to collateral held. For the purposes of the table below, the loans and advances to customers secured by guarantees are classified under guarantees, without taking into consideration further collateral held.

	Loans and advances to customers							
	Legal entities				Individuals			
Purpose of facility	Project finance	Current activity financing	Reverse repos	Other	Mortgage	Reverse repos	Other	Total loans and advances to customers
Credit quality by type of collateral:	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 31 December 2013								
Cash	177.758	1.205.125	-	417.276	-	-	118.739	1.918.898
Guarantees	24.200	4.954.493	-	-	-	-	-	4.978.693
Securities	-	244.581	87.077	169.336	-	574	100.447	602.015
Other	93.579	173.586	-	4.582	30.120	-	40.683	342.550
Unsecured	-	5.724	-	50	294	-	10.553	16.621
Total	**295.537**	**6.583.509**	**87.077**	**591.244**	**30.414**	**574**	**270.422**	**7.858.777**
At 31 December 2012								
Cash	152.855	3.210.063	-	664.890	-	-	97.650	4.125.458
Guarantees	116.218	6.541.736	-	1.607.887	-	-	9.650	8.275.491
Securities	98.620	392.053	5.098	78.578	-	2.804	-	577.153
Other	107.574	247.909	-	4.397	23.229	-	-	383.109
Unsecured	-	6.445	-	46	171	-	9.995	16.657
Total	**475.267**	**10.398.206**	**5.098**	**2.355.798**	**23.400**	**2.804**	**117.295**	**13.377.868**

B. Loans and advances to banks neither past due nor impaired

The credit quality of loans and advances to banks that are neither past due nor impaired is assessed by the management of the Group by reference to whether they are within the Basel II implementation zone or not (including VTB group banks within this zone). The remaining balances with banks within the VTB group are considered to be of equal credit quality as they carry the ultimate credit risk of JSC VTB Bank.

	2013 US$000	2012 US$000
Loans and advances to banks by class		
Banks within Basel II implementation zone (including VTB group banks in this zone)	1.060.395	1.170.368
Banks outside Basel II implementation zone	32.930	76.788
	1.093.325	**1.247.156**

C. Loans and advances to central banks

All balances with central banks comprise balances with the Central Bank of Cyprus, the Bank's regulatory supervisory body.

D. Loans and advances to customers past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances to customers by class that were past due but not impaired were as follows:

	Loans and advances to customers				
	Legal entities				
Purpose of facility	Project finance US$000	Current activity financing US$000	Reverse repos US$000	Other US$000	Total loans and advances to customers US$000
At 31 December 2013					
1 to 30 days	-	-	-	-	-
31 to 60 days	-	-	-	-	-
61 to 90 days	-	-	-	-	-
More than 90 days	-	-	-	913.941	913.941
Total	**-**	**-**	**-**	**913.941**	**913.941**
Fair value of collateral (cash)	**-**	**-**	**-**	**913.941**	**913.941**
At 31 December 2012					
1 to 30 days	-	-	-	-	-
31 to 60 days	-	-	-	-	-
61 to 90 days	-	-	-	-	-
More than 90 days	-	-	-	731.538	731.538
Total	**-**	**-**	**-**	**731.538**	**731.538**
Fair value of collateral (cash)	**-**	**-**	**-**	**731.538**	**731.538**

E. Loans and advances to banks past due but not impaired

As of 31 December 2013 and 31 December 2012 there were no loans and advances to banks which were past due but not impaired.

F. Loans and advances individually impaired

The gross amounts of individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is US$47.035 thousand (2012: US$9.454 thousand).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	Loans and advances to customers					
	Legal entities			Individuals		
Purpose of facility	Project finance US$000	Current activity financing US$000	Other US$000	Mortgage US$000	Other US$000	Total loans and advances to customers US$000
At 31 December 2013						
Individually impaired loans	38.966	3.267	3.159	1.329	314	47.035
Fair value of collateral	25.253	-	-	814	206	26.273
At 31 December 2012						
Individually impaired loans	3.212	2.839	3.159	-	244	9.454
Fair value of collateral	-	1.518	-	-	199	1.717

The Group did not have any individually impaired loans and advances with banks as of 31 December 2013 and 31 December 2012.

4.2.4. Debt instruments

The table below presents an analysis of debt instruments by rating agency designation at 31 December 2013 and 2012, based on Moody's and Standard & Poor's ratings:

	Rating agency	Debt securities US$000	Trading credit products US$000	Debt securities pledged under repurchase agreements US$000	Total US$000
At 31 December 2013					
Aaa	Moody's	22.208	-	8.258	30.466
Baa2	Moody's	-	943.369	-	943.369
B1	Moody's	69.736	-	-	69.736
B2	Moody's	35.022	-	14.861	49.883
B3	Moody's	26.594	-	-	26.594
Caa1	Moody's	6.756	-	2.896	9.652
BB	S&Ps	14.981	-	6.420	21.401
B+	S&Ps	26.961	-	-	26.961
Total		**202.258**	**943.369**	**32.435**	**1.178.062**

Continued on next page.

	Rating agency	Debt securities US$000	Trading credit products US$000	Loaned debt securities US$000	Total US$000
At 31 December 2012					
Baa1	Moody's	-	942.030	969.840	1.911.870
B1	Moody's	109.657	-	-	109.657
B2	Moody's	37.691	-	-	37.691
BBB	S&Ps	49.060	-	-	49.060
BB	S&Ps	21.583	-	-	21.583
BB-	S&Ps	39.760	-	-	39.760
B+	S&Ps	18.195	-	-	18.195
N/A	No rating	118.008	-	-	118.008
Total		393.954	942.030	969.840	2.305.824

Trading credit products and loaned debt securities were fully secured by bank guarantees and were considered to carry the ultimate credit risk of the guarantors.

None of the debt instruments in the Group's trading book are either past due or impaired as of 31 December 2013 and 31 December 2012.

4.2.5. Repossessed collateral

During 2013 and 2012, the Group did not obtain any assets by taking possession of collateral held as security.

4.2.6. Other financial assets

The Group did not have any past due or impaired other financial assets as of 31 December 2013 and 31 December 2012.

4.2.7. Concentration of risks of financial assets with credit risk exposure

A. Industry sector concentration

The following table breaks down the Group's financial assets and off-balance sheet commitments subject to credit risk as categorised by industry at 31 December.

	Assets giving rise to credit risk			
Industry	2013		2012	
	US$000	%	US$000	%
Aircraft industry	-	-	282.745	1,50
Banks and financial institutions	1.212.097	10,47	1.765.237	9,36
Building construction (including real estate management)	1.516.926	13,11	2.874.702	15,24
Chemical industry	-	-	81.364	0,43
Coal mining	123.282	1,07	413.951	2,19
Energy	38.999	0,34	39.766	0,24
Finance	5.359.336	46,30	8.629.557	45,75
Food and agriculture	44.261	0,38	19.401	0,10
Government bodies	40.117	0,35	9.707	0,05
Individuals	306.274	2,65	167.579	0,89

Continued on next page.

Industry	Assets giving rise to credit risk			
	2013		2012	
	US$000	%	US$000	%
Manufacturing	26.961	0,23	786.190	4,17
Metals (including precious stones)	1.756.070	15,17	2.648.818	14,04
Oil and Gas	944.016	8,16	731.538	3,88
Other industries	13.326	0,11	16.387	0,07
Telecommunications and media (including information technology)	21.401	0,18	45.833	0,24
Trade and commerce	119.417	1,03	263.573	1,40
Transport	51.904	0,45	86.441	0,45
Total	**11.574.387**	**100**	**18.862.789**	**100**

B. Geographical concentration

The following table breaks down the Group's main credit exposures at their carrying amounts, as categorised by geographical region as of 31 December 2013 and 2012. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

	Cyprus US$000	Europe US$000	Russia US$000	America US$000	Other countries US$000	Total US$000
Credit risk exposures relating to on-balance sheet assets are as follows:						
Balances with central banks	114.569	-	-	-	-	**114.569**
Loans and advances to banks:						
- VTB group	-	23	32.132	-	-	**32.155**
- Non VTB group	6.042	866.601	593	187.934	-	**1.061.170**
Financial assets at fair value through profit or loss:						
- Debt instruments	-	943.369	173.295	22.207	6.756	**1.145.627**
- Debt securities pledged under repurchase agreements	-	-	21.282	8.258	2.895	**32.435**
Derivative financial instruments	6	1.834	-	-	-	**1.840**
Loans and advances to customers:						
- Legal entities by purpose of facility:						
· Project finance	76.082	24.200	148.298	-	72.210	**320.790**
· Current activity financing	1.928.795	921.908	2.106.302	-	1.626.504	**6.583.509**
· Reverse repurchase agreements	87.077	-	-	-	-	**87.077**
· Other	687.917	139.262	649.961	-	28.045	**1.505.185**
- Individuals by purpose of facility:						
· Mortgage	16.956	580	13.692	-	-	**31.228**
· Reverse repurchase agreements	574	-	-	-	-	**574**
· Other	91.839	5.250	173.539	-	-	**270.628**
Other financial assets	7.046	220	2.899	-	3.161	**13.326**
Credit risk exposures relating to off-balance sheet items are as follows:						
Financial guarantees	530	690	22.110	-	-	**23.330**
Loan commitments	12.123	138.789	131.140	-	68.892	**350.944**
At 31 December 2013	**3.029.556**	**3.042.726**	**3.475.243**	**218.399**	**1.808.463**	**11.574.387**
At 31 December 2012	**5.741.420**	**3.745.777**	**6.502.448**	**255.501**	**2.617.643**	**18.862.789**

The Group's significant amount of loans and advances to customers are with entities with operations in the Russian Federation.

4.2.8. Disclosures as per the Central Bank of Cyprus 'Directive issued to Credit Institutions on loan impairment and provisioning procedures'

A. Analysis of loans and advances according to their performance status

The table below presents an analysis of loan and advances to customers according to their performance status as of 31 December 2013.

	Total credit facilities	Performing credit facilities			Non - performing credit facilities
		Not restructured credit facilities	Restructured credit facilities	Total performing credit facilities	
	US$000	US$000	US$000	US$000	US$000
1. Credit facilities to corporate legal entities	**8.516.700**	**7.360.437**	**196.930**	**7.557.367**	**959.333**
Financial and insurance activities	5.653.006	5.163.159	176.933	5.340.092	312.914
Mining and quarrying	1.434.301	791.149	-	791.149	643.152
Real estate activities	599.085	599.085	-	599.085	-
Public administration and defence	494.260	494.260	-	494.260	-
Construction	137.208	137.208	-	137.208	-
All other sectors	198.840	175.576	19.997	195.573	3.267
2. Credit facilities to retail legal entities	**-**	**-**	**-**	**-**	**-**
Financial and insurance activities	-	-	-	-	-
Mining and quarrying	-	-	-	-	-
Real estate activities	-	-	-	-	-
Public administration and defence	-	-	-	-	-
Construction	-	-	-	-	-
All other sectors	-	-	-	-	-
3. Credit facilities to private individuals	**303.053**	**290.979**	**10.431**	**301.410**	**1.643**
Credit facilities for the purchase/ construction of immovable property:	37.072	35.039	390	35.429	1.643
a. Owner occupied	10.679	10.679	-	10.679	-
b. For other purposes	26.393	24.360	390	24.750	1.643
Consumer loans	265.618	255.577	10.041	265.618	-
Credit cards	363	363	-	363	-
Current accounts	-	-	-	-	-
Credit Facilities to sole traders	-	-	-	-	-
4. Total credit facilities (1+2+3)	**8.819.753**	**7.651.416**	**207.361**	**7.858.777**	**960.976**
Provisions	(20.762)	-	-	-	(20.762)

There was no impairment in accordance with IAS39 for performing loans which were classified as restructured as of 31 December 2013 per the requirements of the Directive since these borrowers are expected to fully meet their commitments.

The definitions of 'restructured' credit facilities and 'non-performing' credit facilities are in accordance with the provisions of the 'Directive issued to Credit Institutions on the definitions of non-performing and restructured credit facilities'.

Restructuring of credit facilities covers any action of the credit institution that changes the terms and/or conditions of debtor's credit facilities aiming to deal with the existing or expected debtor's difficulties to service the debt according to the existing repayment program.

Indicatively but not exhaustively, restructured credit facilities include:

a. All loans which have been modified with regard to their repayment schedule. Some examples of the elements which are considered as a modification of the repayment schedule are:
    - Postponement of payment of one or more instalments,
    - Write-off of capital or interest,
    - Capitalisation of instalments in arrears,
    - Reduction of loan instalment due to reduction of interest rate,
b. Granting of any credit facility to settle arrears/excesses of existing credit facilities.

Any facility fully covered by cash collateral is exempted and shall not be classified as restructured.

Indicatively but not exhaustively, non-performing credit facilities include:

a. Credit facilities which present arrears (of capital and/or interest and/or other charges) for a period of more than ninety (90) days,
b. Credit facilities which have been restructured more than once in an eighteen (18) month period. Facilities fully covered by cash collateral are exempted.
c. All facilities of a debtor are considered non-performing, if there are doubts, based on objective evidence, as to the debtor's ability to repay the debt in full. Some examples of elements to be taken as indications of unlikeliness to pay include:
    - at least one credit facility for which specific provision (either of capital or interest) has been raised,
    - at least one credit facility for which a partial write-off (either of capital or interest) has been effected,
    - a private individual who has been declared bankrupt, or has filed a petition for bankruptcy, or for whom the credit institution has filed a petition for bankruptcy, or the credit institution has been advised of any such petition which in its assessment has a high probability of being accepted by the competent court,
    - a legal entity which has filed a petition for winding up or is under winding up, or for which the credit institution has appointed a receiver or manager, or the credit institution has filed a petition for winding up, or the credit institution has been advised of any such petition which in its assessment has a high probability of being accepted by the competent court.

B. Analysis of loans and advances according to their origination date

The table below presents an analysis of loans and advances to customers according to their origination date.

	Total credit facilities			Credit facilities to legal entities			Credit facilities to private individuals - housing loans			Credit facilities to private individuals - other loans		
Credit facilities granted	Total credit facilities US$000	Non performing credit facilities US$000	Provisions US$000	Total credit facilities US$000	Non performing credit facilities US$000	Provisions US$000	Total credit facilities US$000	Non performing credit facilities US$000	Provisions US$000	Total credit facilities US$000	Non performing credit facilities US$000	Provisions US$000
Within 1 year	2.735.309	-	-	2.525.393	-	-	13.908	-	-	196.008	-	-
1 - 2 years	2.937.193	39.019	(13.767)	2.911.170	39.019	(13.767)	8.480	-	-	17.543	-	-
2 - 3 years	1.870.356	1.643	(623)	1.807.395	-	-	10.535	1.643	(623)	52.426	-	-
3 - 5 years	38.749	-	-	35.219	-	-	3.526	-	-	4	-	-
5 - 7 years	946.594	643.152	-	946.594	643.152	-	-	-	-	-	-	-
7 - 10 years	270.790	270.790	-	270.790	270.790	-	-	-	-	-	-	-
More than 10 years	-	6.372	(6.372)	-	6.372	(6.372)	-	-	-	-	-	-
Total	**8.798.991**	**960.976**	**(20.762)**	**8.496.561**	**959.333**	**(20.139)**	**36.449**	**1.643**	**(623)**	**265.981**	**-**	**-**

4.3. Market risk

The Group takes on exposure to market risks, which is the risk of losses in on and off-balance sheet positions arising from movements in the market variables. The main risks falling within the above definition are the risks pertaining to interest rate related instruments in the trading book, price risk related to equity instruments in the trading book and foreign exchange risk in the banking and trading book. The Group is not exposed to market risk arising from commodity prices.

4.3.1. Price risk

The Group has no equity securities as at 31 December 2013, and therefore is not exposed to equity securities price risk.

As of 31 December 2012, the Group's investments in equity securities amounted to US$2.787 thousand. The securities were listed on the Cyprus Stock Exchange and the Athens Stock Exchange.

As of 31 December 2012, had the fair value of these securities increased/decreased by 10% with all other variables held constant, the post tax profit for the year would have increased/decreased by US$279 thousand.

4.3.2. Currency risk

Currency risk is the risk that the foreign exchange rates will change affecting the value of the Group's foreign exchange position and consequently the value of the Group's balance sheet. The Credit, Assets and Liabilities Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group does not open positions in any currency with the view of profiting from exchange fluctuations. Any foreign currency positions are short term and for operational purposes. The Group uses currency derivative contracts as part of its management of currency risk.

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2013 and 2012. Included in the table are the Group's financial assets and financial liabilities at carrying amounts as well as off-balance sheet instruments, categorised by currency.

	RUR US$000	EUR US$000	USD US$000	Other US$000	Total US$000
As at 31 December 2013					
Assets					
Cash and balances with central banks	187	115.540	906	80	116.713
Loans and advances to banks	32.153	5.958	1.049.168	6.046	1.093.325
Financial assets at fair value through profit or loss	123.292	-	1.054.770	-	1.178.062
Derivative financial instruments	-	-	1.840	-	1.840
Loans and advances to customers	2.376.421	568.778	5.848.144	5.648	8.798.991
Other financial assets	74	2.181	10.533	538	13.326
Total financial assets	**2.532.127**	**692.457**	**7.965.361**	**12.312**	**11.202.257**
Liabilities					
Due to other banks	2.259.352	162.123	5.590.173	-	8.011.648
Due to customers	108.471	750.063	1.480.893	45.629	2.385.056
Financial liabilities at fair value through profit or loss	-	26.482	71.017	-	97.499
Derivative financial instruments	-	-	1.253	-	1.253
Debt securities in issue	14.508	45.634	40.718	6.276	107.136
Other financial liabilities	6.388	16.407	117.970	254	141.019
Subordinated debt	-	-	100.511	-	100.511
Total financial liabilities	**2.388.719**	**1.000.709**	**7.402.535**	**52.159**	**10.844.122**
Net on-balance sheet position	**143.408**	**(308.252)**	**562.826**	**(39.847)**	**358.135**
Off-balance sheet commitments	**142.469**	**149.382**	**80.438**	**1.985**	**374.274**
As at 31 December 2012					
Assets					
Cash and balances with central banks	282	518.269	511	305	519.367
Loans and advances to banks	46.333	10.196	1.148.565	42.062	1.247.156
Financial assets at fair value through profit or loss	1.212.685	2.787	1.093.139	-	2.308.611
Derivative financial instruments	-	-	733	-	733
Loans and advances to customers	6.270.734	538.047	7.284.685	17.657	14.111.123
Other financial assets	104	2.959	11.246	281	14.590
Total financial assets	**7.530.138**	**1.072.258**	**9.538.879**	**60.305**	**18.201.580**
Liabilities					
Due to other banks	7.145.430	194.469	6.948.154	-	14.288.053
Due to customers	262.909	857.225	2.213.167	59.885	3.393.186
Derivative financial instruments	-	-	1.646	-	1.646
Debt securities in issue	-	6.275	10.236	-	16.511
Other financial liabilities	241	12.875	29.241	318	42.675
Subordinated debt	-	-	100.511	-	100.511
Total financial liabilities	**7.408.580**	**1.070.844**	**9.302.955**	**60.203**	**17.842.582**
Net on-balance sheet position	**121.558**	**1.414**	**235.924**	**102**	**358.998**
Off-balance sheet commitments	**334.722**	**198.925**	**130.744**	**1.624**	**666.015**

The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates with all other variables held constant on the Group's post tax profit

Currency	Change in currency rate %	Effect on post tax profit US$000
2013		
RUR	+/-10	-/+12.548
EUR	+/-10	-/+26.972
Other	+/-10	-/+3.487
2012		
RUR	+/-10	-/+ 10.940
EUR	+/-10	-/+ 127
Other	+/-10	-/+ 9

As of 31 December 2013, the Group has significant exposures in relation to the Russian Rouble and the Euro (2012: Russian Rouble). This exposure is hedged with the use of foreign exchange derivatives, as explained in Note 16.

4.3.3. Interest rate risk

Interest rate risk in the Group's trading book is the risk that changes in the market interest rates will adversely affect the value of the fixed income portfolio. Interest rate risk in the banking book (repricing risk) is the risk that arises from timing differences in the maturity (for fixed-rate instruments) and repricing (for floating-rate instruments) of the Group's assets, liabilities and off-balance sheet positions.

The interest rate risk associated with these financial instruments is minimal because substantially all interest-bearing financial assets are appropriately matched.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

	Current to 1 month US$000	1 month to 3 months US$000	3 months to 6 months US$000	6 months to 1 year US$000	Over 1 year US$000	Overdue US$000	Non - interest bearing US$000	Total US$000
At 31 December 2013								
Assets								
Cash and loans and advances to banks and central banks	1.161.229	12.665	923	7.452	25.625	-	2.144	1.210.038
Financial assets at fair value through profit or loss	1.178.062	-	-	-	-	-	-	1.178.062
Derivatives	-	-	-	-	-	-	1.840	1.840
Loans and advances to customers	2.118.688	470.099	432.037	3.483.687	1.355.080	939.400	-	8.798.991
Other financial assets	-	-	-	-	-	-	13.326	13.326
Total financial assets	**4.457.979**	**482.764**	**432.960**	**3.491.139**	**1.380.705**	**939.400**	**17.310**	**11.202.257**

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	Current to 1 month US$000	1 month to 3 months US$000	3 months to 6 months US$000	6 months to 1 year US$000	Over 1 year US$000	Overdue US$000	Non - interest bearing US$000	Total US$000
At 31 December 2013								
Liabilities								
Deposits from banks	6.964.547	61.447	-	-	71.587	914.067	-	8.011.648
Due to customers	1.081.141	157.853	78.193	660.777	407.092	-	-	2.385.056
Financial liabilities at fair value through profit or loss	97.499	-	-	-	-	-	-	97.499
Derivatives	-	-	-	-	-	-	1.253	1.253
Debt securities in issue	12.825	1.882	11.009	58.688	22.732	-	-	107.136
Other financial liabilities	-	-	-	-	-	-	141.019	141.019
Subordinated debt	-	511	-	-	100.000	-	-	100.511
Total financial liabilities	**8.156.012**	**221.693**	**89.202**	**719.465**	**601.411**	**914.067**	**142.272**	**10.844.122**
Net interest sensitivity gap	**(3.698.033)**	**261.071**	**343.758**	**2.771.674**	**779.294**	**25.333**	**(124.962)**	**358.135**
At 31 December 2012								
Total assets	7.300.957	1.272.015	1.019.324	2.756.654	5.103.548	731.740	17.342	18.201.580
Total liabilities	9.626.983	974.161	303.119	993.440	5.168.916	731.642	44.321	17.842.582
Net interest sensitivity gap	**(2.326.026)**	**297.854**	**716.205**	**1.763.214**	**(65.368)**	**98**	**(26.979)**	**358.998**

The interest sensitivity gaps are mainly caused by loans and advances to customers being covered by short-term deposits from banks. The interest rate risk is mitigated by the 2 days notice guarantees from the banks providing collateral. The interest rate risk associated with these financial instruments is minimal because substantially all interest-bearing financial assets are appropriately matched (refer to section 4.4 below).

The following table demonstrates the sensitivity on the Group's post-tax profit to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the Group's post tax profit is the effect of changes in interest rates which are reasonably possible at the reporting dates which arises on floating rate financial assets and financial liabilities as at 31 December 2013 and 2012.

Sensitivity as of 31 December 2013

Currency	Increase /decrease in basis points 2013	Sensitivity of profit after tax 2013 US$000
USD	+/-100	+/- 17.933

Sensitivity as of 31 December 2012

Currency	Increase/decrease in basis points 2012	Sensitivity of profit after tax 2012 US$000
USD	+/-100	+/- 38.074

4.4. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Treasury Department monitors the liquidity of the Group on a daily basis by:

- Managing future cash flows to ensure that requirements are met;
- Maintaining a portfolio of highly marketable securities that can easily be liquidated against any unforeseen interruption to cash flow; and
- Managing balance sheet liquidity ratios against internal and regulatory requirements.

The expected cash outflows match in general with the expected cash inflows from assets.

The table below presents the undiscounted cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. Financial liabilities at fair value through profit or loss are disclosed within "Up to 1 month" category.

	Up to 1 month US$000	1-3 months US$000	3-12 months US$000	Over 1 year US$000	Total US$000
As at 31 December 2013					
Financial liabilities					
Deposits from banks	7.883.700	62.269	-	87.051	8.033.020
Due to customers	1.080.637	158.598	774.950	456.580	2.470.765
Financial liabilities at fair value through profit or loss	97.499	-	-	-	97.499
Debt securities in issue	12.825	1.893	71.781	27.651	114.150
Other financial liabilities	103.267	92	2.065	35.595	141.019
Subordinated debt	-	511	1.022	137.902	139.435
Total financial liabilities	**9.177.928**	**223.363**	**849.818**	**744.779**	**10.995.888**
As at 31 December 2012					
Financial liabilities					
Deposits from banks	9.036.854	874.056	210.264	4.614.507	14.735.681
Due to customers	1.281.964	154.401	1.129.145	1.015.357	3.580.867
Debt securities in issue	3.974	1.199	11.966	-	17.139
Other financial liabilities	42.069	417	189	-	42.675
Subordinated debt	-	511	1.022	145.070	146.603
Total financial liabilities	**10.364.861**	**1.030.584**	**1.352.586**	**5.774.934**	**18.522.965**

4.5. Derivative financial instruments

The table below analyses the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the date of the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These include foreign currency derivatives.

	Up to 1 month US$000	1 -3 months US$000	3 -12 months US$000	Over 1 year US$000	Total US$000
At 31 December 2013					
Gross settled foreign exchange derivatives:					
- Inflow	507.578	-	-	-	507.578
- Outflow	(507.057)	-	-	-	(507.057)
Net settled foreign exchange derivatives:					
- Net inflow		21	45	-	66
Total inflow	**507.578**	**21**	**45**	**-**	**507.644**
Total outflow	**(507.057)**	**-**	**-**	**-**	**(507.057)**
At 31 December 2012					
Gross settled foreign exchange derivatives:					
- Inflow	117.597	-	-	-	117.597
- Outflow	(118.585)	-	-	-	(118.585)
Net settled foreign exchange derivatives:					
- Net inflow	10	65	-	-	75
Total inflow	**117.607**	**65**	**-**	**-**	**117.672**
Total outflow	**(118.585)**	**-**	**-**	**-**	**(118.585)**

4.6. Off-balance sheet items

A. Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 29) are summarised in the table below.

B. Other credit related commitments

Other credit related commitments (Note 29) are also included in the table below, based on the earliest contractual maturity date.

C. Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 29, are summarised in the table below.

The table below summarises the Group's contractual undiscounted cash flows arising from off-balance sheet items.

	Up to 1 month US$000	1 -3 months US$000	3 -12 months US$000	Over 1 year US$000	Total US$000
At 31 December 2013					
Loan commitments	350.944	-	-	-	350.944
Financial guarantees	23.330	-	-	-	23.330
Operating lease commitments	750	1.745	7.166	28.354	38.015
Total	**375.024**	**1.745**	**7.166**	**28.354**	**412.289**
At 31 December 2012					
Loan commitments	595.172	-	-	-	595.172
Financial guarantees	70.843	-	-	-	70.843
Operating lease commitments	1.013	2.729	7.534	15.866	27.142
Total	**667.028**	**2.729**	**7.534**	**15.866**	**693.157**

4.7. Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. In 2013 and 2012, the Group was managing operational risk through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

4.8. Fair values

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	Carrying value		Fair value	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Financial assets				
Balances with central banks	114.569	517.348	114.569	517.348
Due from other banks	1.093.325	1.247.156	1.093.325	1.247.156
Loans and advances to customers	8.798.991	14.111.123	8.793.169	14.106.197
Other financial assets	13.326	14.590	13.326	14.590
Financial liabilities				
Due to other banks	8.011.648	14.288.053	8.011.648	14.288.053
Due to customers	2.385.056	3.393.186	2.385.056	3.381.405
Debt securities in issue	107.136	16.511	107.136	16.511
Other financial liabilities	141.019	42.675	141.019	42.675
Subordinated debt	100.511	100.511	100.511	100.511

I. **Due from other banks**

Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits equals their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

II. Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received and according to their valuation method are included in level 3. Expected cash flows are discounted at current market rates to determine fair value.

III. Due to other banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of amounts due to banks approximates their carrying value.

IV. Debt securities in issue and subordinated debt

The aggregate fair values are calculated using discounted cash flow models based on a current yield curve appropriate for the remaining term to maturity. The fair value of debt securities in issue and subordinated debt approximates their carrying values.

The table below analyses financial instruments carried at fair value by valuation method.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

Assets	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
At 31 December 2013				
Financial assets at fair value through profit or loss:				
- Debt instruments held for trading	202.258	943.369	-	1.145.627
- Derivatives	-	1.840	-	1.840
- Debt securities pledged under repurchase agreements	32.435	-	-	32.435
Total assets measured at fair value	**234.693**	**945.209**	**-**	**1.179.902**
At 31 December 2012				
Financial assets at fair value through profit or loss:				
- Debt instruments held for trading	324.659	1.011.325	-	1.335.984
- Equity securities held for trading	2.787	-	-	2.787
- Derivatives	-	733	-	733
- Loaned debt securities held for trading	-	969.840	-	969.840
Total assets measured at fair value	**327.446**	**1.981.898**	**-**	**2.309.344**

Continued on next page.

Liabilities	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
At 31 December 2013				
Financial liabilities at fair value through profit or loss:				
- Short positions in debt instruments	97.499	-	-	97.499
- Derivatives	-	1.253	-	1.253
Total liabilities measured at fair value	**97.499**	**1.253**	**-**	**98.752**
At 31 December 2012				
Financial liabilities at fair value through profit or loss:				
- Derivatives	-	1.646	-	1.646
Total liabilities measured at fair value	**-**	**1.646**	**-**	**1.646**

The determination of the fair values of debt instruments held for trading and derivative financial instruments are disclosed in Notes 15 and 16 respectively.

4.9. Offsetting financial assets and liabilities

The Group did not have any financial assets or financial liabilities that were subject to offsetting, enforceable master netting arrangements or any similar agreements.

4.10. Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

- to comply with the capital requirements set by the Central Bank of Cyprus;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

In order to evaluate the capital level which is sufficient in relation to the risks to which the institution is exposed, the Group has adopted the Internal Capital Adequacy Assessment Process (ICAAP).

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Central Bank of Cyprus (the Authority), for supervisory purposes. The required information is filed with the Authority on a semi annual basis.

The Authority requires the Bank to: (a) have minimum initial capital of EUR5.125.804 and (b) maintain a minimum regulatory ratio of total regulatory capital to risk-weighted assets.

The Group's regulatory capital as managed by its Risk Management Department is divided into two tiers, the main components of which are:

- Tier 1 capital: share capital, share premium, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral guarantees or other risk mitigant. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2013 and 2012. During those two years, the Group complied with all of the externally imposed capital requirements to which it was subject.

	2013 US$000	2012 US$000
Tier 1 capital		
Share capital	18.070	18.070
Share premium	31.726	31.726
Retained earnings	330.359	329.755
Less: intangible assets	(2.885)	(3.537)
Total qualifying Tier 1 capital	**377.270**	**376.014**
Tier 2 capital		
Subordinated loan capital	100.000	100.000
Total qualifying Tier 2 capital	**100.000**	**100.000**
Total regulatory capital	**477.270**	**476.014**
Risk-weighted assets:		
On-balance sheet	2.215.554	2.215.107
Off-balance sheet	31.972	70.668
Total risk-weighted assets	**2.247.526**	**2.285.775**
Capital adequacy ratio	**21,2%**	**20,8%**

4.11. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

31 December 2013	Loans and receivables US$000	Assets at fair value through profit or loss US$000	Total US$000
Assets as per balance sheet			
Cash and balances with central banks	116.713	-	116.713
Loans and advances to banks	1.093.325	-	1.093.325
Financial assets at fair value through profit or loss	-	1.178.062	1.178.062
Derivative financial instruments	-	1.840	1.840
Loans and advances to customers	8.798.991	-	8.798.991
Other financial assets	13.326	-	13.326
Total	**10.022.355**	**1.179.902**	**11.202.257**

31 December 2013	Liabilities at fair value through profit or loss US$000	Other financial liabilities US$000	Total US$000
Liabilities as per balance sheet			
Deposits from banks	-	8.011.648	8.011.648
Due to customers	-	2.385.056	2.385.056
Financial liabilities at fair value through profit or loss	97.499	-	97.499
Derivative financial instruments	1.253	-	1.253
Debt securities in issue	-	107.136	107.136
Other financial liabilities	-	141.019	141.019
Subordinated debt	-	100.511	100.511
Total	**98.752**	**10.745.370**	**10.844.122**

Continued on next page.

31 December 2012	Loans and receivables	Assets at fair value through profit or loss	Total
	US$000	US$000	US$000
Assets as per balance sheet			
Cash and balances with central Banks	519.367	-	519.367
Loans and advances to banks	1.247.156	-	1.247.156
Financial assets at fair value through profit or loss	-	2.308.611	2.308.611
Derivative financial instruments	-	733	733
Loans and advances to customers	14.111.123	-	14.111.123
Other financial assets	14.590	-	14.590
Total	**15.892.236**	**2.309.344**	**18.201.580**

31 December 2012	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	US$000	US$000	US$000
Liabilities as per balance sheet			
Deposits from banks	-	14.288.053	14.288.053
Due to customers	-	3.393.186	3.393.186
Derivative financial instruments	1.646	-	1.646
Debt securities in issue	-	16.511	16.511
Other financial liabilities	-	42.675	42.675
Subordinated debt	-	100.511	100.511
Total	**1.646**	**17.840.936**	**17.842.582**

4.12. Transfers of financial assets

A. Repurchase and Securities lending transactions

At 31 December 2013, the Group had debt securities held for trading amounting to US$32.435 thousand (2012: US$Nil) pledged under repurchase transactions (Note 15), for which the carrying amount of the associated liability was equal to US$28.363 thousand. At 31 December 2012, the Group had debt securities held for trading amounting to US$969.840 thousand (2013: US$Nil) that were provided to counterparties in securities lending transactions (Note 15) in exchange for a fee, for which the carrying amount of the associated liability was equal to US$Nil.

B. Loans

At 31 December 2013, the Group had loans granted to customers carried at amortised cost amounting to US$2.457.859 thousand (2012: US$4.006.028 thousand) that were issued under participation agreements under which the Group retained the right to the contractual cash flows but undertook the obligation to pay the cash flows to other parties. These were not derecognised as some of the pass-through arrangement conditions were not met. The Group is not exposed to credit risk as this has been transferred to the participants. At 31 December 2013, the related liabilities amounting to US$2.457.859 thousand (2012: US$4.001.395 thousand) were recognised as deposits from banks and due to customers.

5. Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported 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 financial statements 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 to customers**
  The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, 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. 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.

- **Fair value of financial instruments**
  The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The method of the valuation of such instruments is disclosed in Note 15 of the consolidated financial statements.

- **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. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

6. Net interest income

	2013 US$000	2012 US$000
Interest income		
Balances with central banks	795	2.884
Loans and advances to banks and customers	959.279	907.275
	960.074	**910.159**
Interest expense		
Deposits from banks and due to customers	816.019	721.131
Debt securities in issue	4.153	998
Subordinated debt (Note 27)	7.168	4.105
	827.340	**726.234**

Interest income includes US$3.956 thousand (2012: US$23 thousand) interest income, recognised on impaired loans to customers.

7. Loan impairment charges

	2013 US$000	2012 US$000
Loans and advances to customers		
Increase in impairment	**12.873**	**1.366**

8. Net fee and commission income

	2013 US$000	2012 US$000
Fee and commission income		
Commission income on operations with securities	2.187	2.777
Commission income on cash collection and settlement operations	4.024	1.733
Commission income on depository services*	4.328	2.817
Fees on guarantees issued	610	94
Other commission income	1.010	302
	12.159	**7.723**
Fee and commission expense		
Commission expense on operations with securities	37	736
Commission expense on settlement operations	510	110
Commission expense on depository services*	2.889	2.917
	3.436	**3.763**

* The Group provides services in a custodian and fiduciary capacity to third parties. Assets held in a fiduciary capacity are not included in these consolidated financial statements. At the balance sheet date the Group had fiduciary accounts amounting to a nominal value of US$3.089.038 thousand (2012: US$6.045.760 thousand).

9. Other gains - net

	2013 US$000	2012 US$000
Net gains/(losses) on financial assets held for trading:		
- Debt securities and credit linked notes	94.061	78.867
- Equity securities	(2.306)	(16.221)
- Trading credit products	76.790	46.950
Foreign exchange transaction gains less losses	(9.613)	7.553
Other	111	25
	159.043	**117.174**

The foreign exchange losses which arose during the year ended 31 December 2013 were mainly due to the use of foreign exchange derivative contracts to mitigate the risk of currency exposures mainly in Russian Rouble instead of obtaining additional funding in Russian Rouble at higher interest rates.

10. Operating expenses

	Note	2013 US$000	2012 US$000
Depreciation of plant and equipment	18	2.933	2.129
Amortisation of intangible assets	19	1.110	938
Profit on sale of plant and equipment	18	(26)	(423)
Operating lease rentals		1.719	8.625
Professional services		19.861	20.839
Auditor's remuneration-statutory audit firm		312	274
Staff, transportation and travelling expenses		119.721	121.526
Taxes other than income tax		11.285	5.769
Advertising, promotion and donations		7.836	5.462
Post and telecommunication expenses		1.132	1.213
Other expenses		5.196	16.690
		171.079	**183.042**

The professional services stated above include fees of US$5 thousand (2012: US$85 thousand) for tax consultancy and compliance services, and US$74 thousand (2012: US$449 thousand) for other non-assurance services charged by the Group's statutory audit firm.

11. Staff costs

	2013 US$000	2012 US$000
Salaries and fees	49.533	40.758
Social insurance and other contributions	2.910	2.451
Provident and indemnity fund contributions	2.313	2.520
Medical fund	896	830
Other staff costs	251	1.256
	55.903	**47.815**

12. Income tax expense

	2013 US$000	2012 US$000
Current tax:		
- Corporation tax	16.070	15.504
Deferred tax (Note 20)	(126)	17
	15.944	**15.521**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2013 US$000	2012 US$000
Profit before tax	**116.548**	**120.651**
Tax calculated at the applicable corporation tax rate of 12,5% (2012:10%)	14.569	12.065
Tax effect of expenses not deductible for tax purposes	4.302	5.463
Tax effect of allowances and income not subject to tax	(2.927)	(263)
Adjustment recognised in the period for current tax of prior periods	-	(1.744)
Income tax charge	**15.944**	**15.521**

The Bank is subject to income tax on taxable profits at the rate of 10% up to 31 December 2012, and at the rate of 12,5% as from 1 January 2013.

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011 and to 30% as from 29 April 2013.

In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014. In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

13. Cash and balances with central banks

	2013 US$000	2012 US$000
Cash in hand	2.144	2.019
Balances with central banks other than mandatory reserve deposits	5.774	368.400
Included in cash and cash equivalents (Note 30)	7.918	370.419
Mandatory reserve deposits with central banks	108.795	148.948
	116.713	**519.367**

All cash and balances with central banks are expected to be recovered within twelve months of the balance sheet date with the exception of US$5.193 thousand (2012: US$886 thousand) which is expected to be recovered after twelve months of the balance sheet date.

Mandatory reserve deposits are not available for use in the Group's day to day operations. The mandatory reserve deposits with the Central Bank of Cyprus are interest bearing.

14. Loans and advances to banks

	2013 US$000	2012 US$000
Amounts in course of collection from other banks (Note 30)	218.516	416.408
Loans and advances to other banks	874.809	830.748
	1.093.325	**1.247.156**

All loans and advances to banks are expected to be recovered within twelve months of the balance sheet date with the exception of US$20.432 thousand (2012: US$22.204 thousand) which is expected to be recovered after twelve months of the balance sheet date.

15. Financial assets at fair value through profit or loss

	2013 US$000	2012 US$000
Financial assets held-for-trading:		
Debt securities	202.258	393.954
Equity securities	-	2.787
Trading credit products	943.369	942.030
	1.145.627	**1.338.771**
Financial assets pledged under repurchase agreements and loaned financial assets held-for-trading:		
Debt securities pledged under repurchase agreements	32.435	-
Loaned debt securities	-	969.840
	32.435	**969.840**
Total held for-trading	**1.178.062**	**2.308.611**

All financial assets at fair value through profit or loss are expected to be recovered within twelve months of the balance sheet date.

The fair value of debt and equity securities is based on their current bid prices in an active market. The fair value of debt instruments included in Level 2 of the fair value hierarchy (Note 4.8) which are not traded in an active market is determined as the higher of the amount secured by bank guarantees and the value determined applying a valuation model which estimates the present value of expected cash flows using inputs at the balance sheet date from observable market data, such as market available credit default swap spreads of a referenced entity, prevailing interest rate levels, probability of default and recovery in the event of default. This data is fed into industry standard models in order to derive the fair value of the instruments.

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in operating assets in the consolidated statement of cash flows.

Net gains on financial assets at fair value through profit or loss are recorded in ‘other gains - net’ (Note 9).

16. Derivative financial instruments

The Group uses currency derivative instruments for hedging its exposure to Russian Roubles and Euro and also at the request of its clients. The latter are hedged by entering into equivalent currency derivative contracts with the same but opposite terms with other banks.

Currency derivatives represent commitments to purchase foreign and domestic currency.

The notional amounts of currency derivative contracts provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair value of the currency derivative contracts is determined using inputs from observable market data, such as the current forward exchange rates, and after applying discounting to the estimated future cash flows. The notional amounts as well as the fair value of these contracts are set out below.

	Contract/notional amount US$000	Assets US$000	Liabilities US$000
At 31 December 2013			
Trading derivatives:			
Foreign exchange derivatives			
- Currency derivatives	528.712/528.116	1.840	1.253
At 31 December 2012			
Trading derivatives:			
Foreign exchange derivatives			
- Currency derivatives	133.227/134.140	733	1.646

All assets and liabilities on trading derivatives are expected to be recovered/settled within twelve months of the balance sheet date.

17. Loans and advances to customers

	2013 US$000	2012 US$000
Legal entities by purpose of facility:		
Project finance	334.503	478.479
Current activity financing	6.586.776	10.401.045
Reverse repurchase agreements	87.077	5.098
Other	1.508.344	3.090.495
Total loans to legal entities	**8.516.700**	**13.975.117**

Continued on next page.

	2013 US$000	2012 US$000
Individuals by purpose of facility:		
Mortgage	31.743	23.400
Reverse repurchase agreements	574	2.804
Other	270.736	117.539
Total loans to individuals	**303.053**	**143.743**
Gross loans and advances	**8.819.753**	**14.118.860**
Less: provision for loan losses		
Legal entities by purpose of facility:		
Project finance	(13.713)	(3.212)
Current activity financing	(3.267)	(1.321)
Other	(3.159)	(3.159)
Individuals by purpose of facility:		
Mortgage	(515)	-
Other	(108)	(45)
	(20.762)	**(7.737)**
Net loans and advances to customers	**8.798.991**	**14.111.123**
Current	4.347.562	5.933.394
Non-current	4.451.429	8.177.729
	8.798.991	**14.111.123**

Reverse repurchase agreements comprise agreements with clients for resale of securities. The Group has an obligation to return the securities to the clients on maturity of the agreements but it is permitted by the terms of the agreements to sell or repledge the collateral in the absence of default by the owner. The fair value of the securities held as collateral on 31 December 2013 is US$93.163 thousand (2012: US$18.462 thousand).

Included in loans and advances to customers are loans amounting to US$4.977.595 thousand (2012: US$8.220.266 thousand) which are covered by guarantees from the holding bank (Note 31).

Movement in allowance for losses on loans and advances to customers:

	2013 US$000	2012 US$000
At 1 January:		
Legal entities by purpose of facility:		
- Project finance	3.212	3.212
- Current activity finance	1.321	-
- Other	3.159	3.159
Individuals by purpose of facility:		
- Other	45	-
Total at 1 January	**7.737**	**6.371**
Movement for the year:		
Increase in impairment allowance:		
- Legal entities - project finance	10.501	-
- Legal entities - current activity financing	1.794	1.321
- Individuals - mortgage	515	-
- Individuals - other	63	45
Loan impairment charges (Note 7)	**12.873**	**1.366**
Foreign exchange gains less losses	**152**	**-**

Continued on next page.

	2013 US$000	2012 US$000
At 31 December:		
Legal entities by purpose of facility:		
- Project finance	13.713	3.212
- Current activity finance	3.267	1.321
- Other	3.159	3.159
Individuals by purpose of facility:		
- Mortgage	515	-
- Other	108	45
Total at 31 December	**20.762**	**7.737**

18. Property, plant and equipment

	Land and buildings US$000	Furniture and equipment US$000	Motor vehicles US$000	Total US$000
At 1 January 2012				
Cost	9.190	3.992	4.219	17.401
Accumulated depreciation	(1.235)	(2.154)	(1.537)	(4.926)
Net book amount	**7.955**	**1.838**	**2.682**	**12.475**
Year ended 31 December 2012				
Opening net book amount	7.955	1.838	2.682	12.475
Additions	11.726	1.706	714	14.146
Disposals	-	-	(1.686)	(1.686)
Depreciation charge (Note 10)	(775)	(778)	(576)	(2.129)
Closing net book amount	**18.906**	**2.766**	**1.134**	**22.806**
At 31 December 2012				
Cost	20.916	5.698	1.699	28.313
Accumulated depreciation	(2.010)	(2.932)	(565)	(5.507)
Net book amount	**18.906**	**2.766**	**1.134**	**22.806**
Year ended 31 December 2013				
Opening net book amount	18.906	2.766	1.134	22.806
Additions	1.607	659	540	2.806
Disposals	-	(7)	(61)	(68)
Depreciation charge (Note 10)	(1.671)	(904)	(358)	(2.933)
Closing net book amount	**18.842**	**2.514**	**1.255**	**22.611**
At 31 December 2013				
Cost	22.523	6.208	2.005	30.736
Accumulated depreciation	(3.681)	(3.694)	(750)	(8.125)
Net book amount	**18.842**	**2.514**	**1.255**	**22.611**

In the consolidated statement of cash flows, proceeds from sale of plant and equipment comprise:

	2013 US$000	2012 US$000
Net book amount	68	1.686
Profit on sale of plant and equipment (Note 10)	26	423
Proceeds from sale of plant and equipment	**94**	**2.109**

As at 31 December 2013 and 2012 the carrying amount of the land and buildings which are carried at fair value approximates the carrying amount had the historical cost basis been used instead of the fair value basis. The fair value is determined by reference to the most recent arm's length transactions with third parties on the acquisition of these properties and market based evidence which indicates that there were no significant movements in fair value since the occurrence of these transactions. The land and buildings are categorised as Level 2 in the fair value hierarchy.

19. Intangible assets

	Computer software US$000
At 1 January 2012	
Cost	2.286
Accumulated amortisation	(1.855)
Net book amount	**431**
Year ended 31 December 2012	
Opening net book amount	431
Additions	4.044
Amortisation charge (Note 10)	(938)
Closing net book amount	**3.537**
At 31 December 2012	
Cost	6.330
Accumulated amortisation	(2.793)
Net book amount	**3.537**
Year ended 31 December 2013	
Opening net book amount	3.537
Additions	458
Amortisation charge (Note 10)	(1.110)
Closing net book amount	**2.885**
At 31 December 2013	
Cost	6.788
Accumulated amortisation	(3.903)
Net book amount	**2.885**

20. Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2013 US$000	2012 US$000
Deferred income tax assets:		
Deferred income asset tax to be recovered after more than 12 months	217	91
Deferred income tax assets	**217**	**91**

The gross movement on the deferred income tax account is as follows:

	2013 US$000	2012 US$000
At 1 January	91	108
Profit or loss credit/(charge) (Note 12)	126	(17)
At 31 December	**217**	**91**

The movement on the deferred income tax assets during the year which arise from the difference between depreciation and wear and tear allowance is as follows:

Deferred tax assets	Total US$000
At 1 January 2012	108
Charged to profit or loss	(17)
At 31 December 2012/1 January 2013	91
Credited to profit or loss	126
At 31 December 2013	**217**

21. Other assets

	2013 US$000	2012 US$000
Other receivables and prepayments	**21.873**	**19.019**
Financial assets	13.326	14.590
Non-financial assets	8.547	4.429
	21.873	**19.019**

All other assets are expected to be recovered within twelve months of the balance sheet date.

22. Deposits from banks

	2013 US$000	2012 US$000
Items in the course of collection	1.049.392	2.150.673
Deposits from other banks	6.933.893	12.137.380
Sale and repurchase agreements with other banks	28.363	-
	8.011.648	**14.288.053**
Current	7.940.061	10.090.700
Non-current	71.587	4.197.353
	8.011.648	**14.288.053**

23. Due to customers

	2013 US$000	2012 US$000
Demand deposits	952.411	1.029.052
Fixed term deposits	579.628	1.289.877
Pledged deposits	853.017	1.074.257
	2.385.056	**3.393.186**
Current	1.977.964	2.521.624
Non-current	407.092	871.562
	2.385.056	**3.393.186**

Pledged deposits are held as collateral for credit facilities granted or guarantees issued to customers.

24. Financial liabilities at fair value through profit or loss

	201 US$000	2012 US$000
Financial liabilities held-for-trading:		
- Obligation on delivery of securities which were sold (short dealer position on security)	**97.499**	**-**

All financial liabilities at fair value through profit or loss are due within twelve months of the balance sheet date.

25. Debt securities in issue

	2013 US$000	2012 US$000
Promissory notes issued	**107.136**	**16.511**
Current	84.404	16.511
Non-current	22.732	-
	107.136	**16.511**

26. Other liabilities

	2013 US$000	2012 US$000
Other payables and accruals	**150.330**	**50.393**
Current	114.736	47.250
Non-current	35.594	3.143
	150.330	**50.393**

27. Subordinated debt

	2013 US$000	2012 US$000
At 1 January	**100.511**	**-**
Issue of subordinated debt	-	100.000
Interest expense (Note 6)	7.168	4.105
Repayments of interest	(7.168)	(3.594)
At 31 December	**100.511**	**100.511**
Current	511	511
Non-current	100.000	100.000
	100.511	**100.511**

The subordinated debt was granted by the parent bank, carries a fixed interest rate of 7,07% per annum and is repayable in June 2019. The debt ranks after all other creditors in the case of liquidation.

28. Share capital and share premium

	2013				2012			
	Number of shares	Share capital €000	Share capital US$000	Share premium US$000	Number of shares	Share capital €000	Share capital US$000	Share premium US$000
Authorised								
Shares of €1,71 each	8 333 333	14.250			8 333 333	14.250		
Issued and fully paid								
At 1 January	8 333 333	14.250	18.070	31.726	8 333 333	14.250	18.070	31.726
At 31 December	8 333 333	14.250	18.070	31.726	8 333 333	14.250	18.070	31.726

29. Contingent liabilities and commitments

A. Legal proceedings

As at 31 December 2013 and 31 December 2012 there were pending claims against the Bank from former employees. Based on legal advice, the Bank's Board of Directors believes that there is sufficient defence

against these claims and no significant loss is expected to arise for the Group. Therefore no provision has been made in the consolidated financial statements in relation to these claims.

B. Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees, 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.

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

Outstanding credit related commitments are as follows:

	2013 US$000	2012 US$000
Guarantees issued	23.330	70.843
Commitments to extend credit:		
- Committed undrawn credit facilities	350.944	595.172
	374.274	**666.015**

Committed undrawn credit facilities amounting to US$351 million as of 31 December 2013 (2012: US$595 million) relate to loan facilities granted to clients.

C. Operating lease commitments – where the Group is the lessee

The lease expenditure charged in operating expenses during the year is disclosed in Note 10. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 US$000	2012 US$000
Not later than 1 year	9.661	11.276
Later than 1 year and not later than 5 years	25.555	13.807
More than 5 years	2.799	2.059
	38.015	**27.142**

D. Capital commitments

At 31 December 2013, the Group had capital commitments amounting to US$Nil (2012: US$252 thousand).

E. Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation is effective from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

30. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows the cash and cash equivalents comprise the following:

	2013 US$000	2012 US$000
Cash and balances with central banks (Note 13)	7.918	370.419
Loans and advances to banks (Note 14)	218.516	416.408
	226.434	**786.827**

31. Related party transactions and balances

The Group is controlled by JSC VTB Bank, which owns 60% of the Bank’s ordinary shares. The Group’s ultimate controlling party is the Russian Federation.

A number of banking transactions were entered into with related parties in the normal course of business.

These included loans, deposit taking, trading securities, issue of guarantees and other banking services. The outstanding balances from related party transactions at the year end and the related income and expense arising from these transactions during the year are as follows:

	Parent Bank		Common ownership companies		Directors and other key management personnel		Other related companies	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Assets								
Loans and advances to banks	27.080	63.070	5.075	1.897	-	-	52	13.306
Financial assets at fair value through profit or loss	-	-	-	-	-	-	45.874	1.088.194
Financial assets at fair value through profit or loss covered by group guarantees	943.369	942.030	-	-	-	-	-	-
Derivative financial instruments	-	-	1.833	733	-	-	-	-
Loans and advances to customers	-	-	1.470.209	1.534.150	14.686	22.983	137.208	115.944
Loans covered by group guarantees	4.977.595	8.220.266	-	4.397	-	-	-	-
Other assets	-	27	3.484	-	280	-	6	-
Liabilities								
Deposits from banks	7.009.524	11.295.532	45	543.598	-	-	272.260	1.011.441
Due to customers	-	-	10.656	30.445	37.670	101.683	354	19.139
Derivative financial instruments	590	988	156	-	-	-	-	-
Other liabilities	237	-	209	1.190	-	-	-	-
Subordinated debt	100.511	100.511	-	-	-	-	-	-
Off balance sheet								
Letters of guarantee	20.797	68.148	1.656	1.626	-	-	-	-
Other credit related commitments	-	-	-	-	7.268	-	120.953	141.894
Consolidated statement of comprehensive income								
Interest income	3.140	540	108.466	91.034	660	2.139	18.672	389
Interest expense	598.116	464.744	31.339	60.183	2.662	4.882	40.667	43.464
Fee and commission income	284	1	16	606	6	3	-	302
Fee and commission expense	1.517	1.882	189	793	-	-	-	3
Net gains/(losses) on financial assets classified as held for trading	-	-	677	6.551	-	-	73.855	48.114
Operating expenses	-	-	11.396	5.986	4.442	3.594	2.313	2.520

Key management compensation

The compensation of key management and the close members of their families is as follows:

	2013 US$000	2012 US$000
Salaries and other short-term employee benefits	**4.442**	**3.594**

The total remuneration of the Directors (included in key management compensation above) was as follows:

	2013 US$000	2012 US$000
Fees	564	590
Emoluments in their executive capacity	3.764	2.893
Other short-term benefits	114	111
	4.442	**3.594**

32. Dividends per share

In December 2013, the Board of Directors approved a dividend payout out of reserves amounting to US$100.000.000 (US$12 per share). The dividend was paid in the same month.

In April 2012, the Board of Directors recommended and the shareholders approved a dividend payout out of reserves amounting to US$100.000.000 (US$12 per share). The dividend was paid in June 2012.

33. Events after the balance sheet date

Subsequent to 31 December 2013, the economic and political uncertainty in Ukraine increased significantly. Further, between 1 January 2014 and the date of the authorization of the financial statements, the Ukrainian Hryvnia has devalued by over 20% whereas the Russian Rouble has dropped more than 10% against the US$ and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies in the inter-bank market. International rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of these events has resulted in deterioration of liquidity and tighter credit conditions where credit is available. At 31 December 2013, the Group did not have exposure to Ukrainian sovereign and municipal securities as well as loans to Ukrainian government fully or majority owned enterprises which would significantly impact the presentation of these consolidated financial statements. Further, international rating agencies revised their outlook of Russia's sovereign credit rating in local and foreign currency from stable to negative. These and any further negative developments in Ukraine could adversely impact results and financial position of the Group in a manner not currently determinable.

There are no other material events after the balance sheet date, which have a bearing on the understanding of the consolidated financial statements

Independent Auditor’s Report on pages 9 to 10.

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